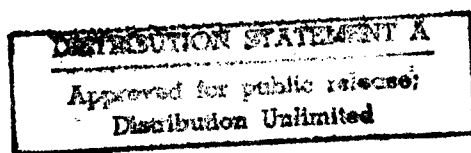


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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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Briefs	
Plans for National Bank Presented	38
Nex Bauxite Mine	38

#### POLAND

Streamlining of 'FAZ' Tax System Urged	
(Bozena Papiernik; RZECZPOSPOLITA, 20 Jun 84).....	39
New Law on Planning Commission Debated in Sejm	
(RZECZPOSPOLITA, 20 Jun 84).....	42
More Details on Ministry Tactics for Evading Reform Laws	
(Tomasz Jezioranski; ZYCIE GOSPODARCZE, No 24, 10 Jun 84).	43

Briefs	
Powerhouse Startup	51
Szczecin Port Activity	51

#### ROMANIA

Activities of Aeronautics Industry Reviewed	
(Teodor Chirica; REVISTA ECONOMICA, No 19, 11 May 84).....	52
Measures To Improve Production for Export	
(M. Fediuc, G. Moldoveanu; REVISTA ECONOMICA, No 22, 1 Jun 84).....	57

12 July 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

### CONTENTS

#### INTERNATIONAL AFFAIRS

Eastward Foreign Trade Shift: No 'Flip of the Switch' (Andrzej Leszczynski; TRYBUNA LUDU, 8 Jun 84).....	1
Soviet Aid for Modernizing Lenin Steelworks Complex (Andrzej Gesing; TRYBUNA LUDU, 8 Jun 84).....	5

#### GERMAN DEMOCRATIC REPUBLIC

Private Slaughter Animal Production Now More Remunerative (NEUE DEUTSCHE BAUERNZEITUNG, No 20, 18 May 84).....	6
---	---

#### HUNGARY

Fekete Lectures on Hungary's Financial Position (Janos Fekete; MOZGO VILAG, No 5, May 84).....	8
Kapolyi Interviewed on Present, Future of Industry (Laszlo Kapolyi Interview; OTLET, 19 Apr 84).....	15
Enterprise Organization Reforms Outlined (Istvan Csillag, et al.; FIGYELO, 31 May 84).....	20
Enterprise of Future Sketched (Otto Pirityi; MUNKA, May 84).....	25
Higher Productivity Rewarded With Better Wages (ESTI HIRLAP, 5 Jun 84).....	30
Hungary's Export Drive Detailed (Artur Fussek; HORIZONT, Jun 84).....	32
New Cracking Plant Opens Ahead of Schedule (Judit Kozma; NEPSZABADSAG, 6 Jun 84).....	35

EASTWARD FOREIGN TRADE SHIFT: NO 'FLIP OF THE SWITCH'

Warsaw TRYBUNA LUDU in Polish 8 Jun 84 p 3

[Article by Andrzej Leszczynski: "On the Heels of the Economic Agreement" under the rubric "Problems of Socialist Integration"; passages enclosed in slantlines printed in boldface in the original source]

[Text] /I am returning from Wroclaw where, together with a group of Polish and Soviet journalists, I familiarized myself with forms of the cooperation between Lower Silesian enterprises and their partners from the Soviet Union. This trip enabled me to realize, or perceive more clearly, certain facts, and it prompted me toward some reflections as well..../

/Trends/

In 1970 the socialist countries accounted for 68.6 percent of Poland's imports. In its turn, Poland at that time directed toward the socialist countries 63.9 percent of its exports. /Thus we started the 1970s with a serious commitment to cooperation with the fraternal countries. But 10 years later, in 1980, these proportions were much lower./

The share of the socialist countries in Poland's imports dropped to 55.6 percent, while our exports to their markets in the same year 1980 were by then only 55.9 percent. This was accompanied by a decline ranging at 5 percent in the share of turnover with the USSR in our overall trade turnover. Of course, the fact that the socialist countries even then accounted for more than 50 percent in our trade turnover still counted for something. But even so this was a disturbing trend [pointing to] to a gradual weakening of contacts.

/J. Gora, technical director of the Wroclaw HUTMEN Steelworks, said/: "It's 14 years since we last saw Mishka Tyomkin, the director of our counterpart nonferrous metals plant in Leningrad. We used to visit each other and exchange experience in technology and organization of labor. In the 1970s these contacts ceased."

The HUTMEN Steelworks is not an exception. In the 1970s the attention of many Polish enterprises became directed toward the West. This happened in the absence of a thorough economic prognosis, penetrating political assessment and ideological reflections. /The credit trap and the subsequent economic restrictions prompted a realistic reappraisal of the situation. It was a bitter, unpleasant and severe reappraisal./

/At a Turn of the Road/

In August 1972 an agreement to purchase a license to manufacture buses was concluded with Berliet, a French company. The production was sited at the Jelcze Automobile Works. The history of this enterprise includes previous numerous contacts with firms of the socialist countries, chiefly with the Czechoslovak KAROSA. It was precisely on the basis of an agreement with that firm that the diverse varieties of Jelcze-Karosa vehicles, so well known on Polish roads, had been manufactured.

In turn, it was on the basis of Polish design and technological thought that mobile workshops mounted on the Star 600 chassis began to be manufactured for the Soviet Union. These mobile workshops still continue to be supplied to the Soviet market.

But beginning with the agreement with Berliet, the Jelcze plant became linked to a Western company. In time this was to lead its workforce onto the thorny path of looking for domestic co-producers and struggling to overcome the tardiness and subsequent forced shrinkage of investments. That was a critical turn of the road.

/It was then that Hungary--IKARUS--came to the aid/: 1,500 chassis units annually, this being the number specified in the agreement to supply Jelcze. This aid will help overcome the shortage of components, create a work front and utilize production capacities. When in the fall of last year I inquired at IKARUS about the nature of this transaction, I was told that it was rather in the nature of a sale than of co-production, that they could consider the possibility of co-producing the gearbox only in the long run. /We must explore the idea further./

It was then also that the general director of the Jelcze Automotive Works, Jan Dalgiewicz, visited the motor vehicle plants in Minsk and Lvov. He said that he noticed that the design concepts for new vehicles and the technical and organizational problems there were similar to those in Jelcze. /We could solve them jointly. But before that, we do not know each other. We are not familiar with each other's possibilities, needs and eventual expectations./

For years we have been shipping mobile workshops to the Soviet Union. They have gained acceptance there. But we have not tried to market other Jelcze products in the Soviet Union. It was recently now that we dispatched a sample Jelcz 120 D interurban motor coach for operating trials. We believe that it will meet with approval, but this takes time.

/As regards foreign contacts, the ELWRO Wroclaw Electronics Works stands at a diametrically opposite pole./

Jerzy Chelchowski, director of the Plant Trade Office at ELWRO, said: "The philosophy of our production strategy consists in understanding the needs of the socialist market, especially the Soviet one. We have been active on it ever since our plant joined the Ryad Uniform Computer System. Within that market we found a specialized niche for ourselves: the manufacture of equipment for the data processing subsystem which serves to create computer configurations thanks to which stored information can reach various reception points--terminals."

/They have demonstrated their capabilities. They are active on the Soviet market. They do not have to introduce themselves./ I will not attempt to describe the technical aspects of their equipment. I will thus only note that at one time when it became necessary to discontinue the production of a type of memory which was abandoned by one of the Soviet customers, the Wroclaw plant faced operating losses that could be difficult to repair. It was then that its Soviet partner suggested that ELWRO increase its deliveries of data processing equipment. /Because a tried and tested co-producer is not abandoned./ In this way, new designs of machines, laboratory setups and calculators have access to the Soviet market. /They [ELWRO] showed what they can do./

Jerzy Marszalek, director of the Institute of Computerized Information Science and Metrological Systems, said: "We purchase from each other developments of particular problems in the electronics field. But before a specific agreement is concluded we hold talks at symposiums, seminars and meetings to find out who can afford what. /Without these preparations such transactions would be concluded in the dark./

/The Infrastructure of Cooperation/

Through the thicket of specialized terms and technical language a more general truth shines. /The programs, plans, trade protocols and agreements concluded among the governments of our fraternal socialist countries outline the general directions of cooperation and identify the tasks for ministers and central offices. But real material trade, co-production and exchange of ideas take place at a different level./ At a level at which the Polish designer has to meet with his Soviet colleague. At a level at which it is necessary to know for what particular machine types are we to manufacture subassemblies or which foreign company can provide the optimal components.

/This requires, in my opinion, a constant expansion of what could be termed the infrastructure of cooperation, which assures mutual presentation of products, production potential and scientific and technological resources and facilitates the flow of goods./

In some subsectors of industry the thus conceived infrastructure of cooperation with the USSR already is markedly developed--e.g. in the electronics and shipyard industries as well as in certain fields of the

automotive industry. But this still has not become a solidly grounded tradition everywhere, although exchange and cooperation already have been initiated. The Jelcze plant is by no means an exception.

/Of a certainty, these processes will be accelerated for the construction projects which we will complete jointly--the Katowice and Pokoj iron and steel plants. The formation of this infrastructure is promoted by the clubs for cooperation with the USSR, established under the local branches of the Polish Chamber of Foreign Trade (PIHZ)./

According to Janik, the director of the Lower Silesian Branch of the PIHZ, representatives of the local industry took part in three branch trade missions to the USSR. /Missions that serve to explore the partner's needs and offer one's own products to the market./

The term "reorientation" is nowadays in wide currency among Polish economic activists. It signifies a return to safe relations in our foreign economic ties, that is, basing our economy permanently on cooperation with the Soviet Union and the socialist countries. This of course does not preclude ties with other economic areas, provided that our Western partners do not handicap them with political conditions.

Not infrequently, however, this reorientation toward closer ties with the CEMA countries is interpreted in an oversimplified manner as if it were merely a matter of flipping a switch somewhere at the central decision-making level, whereupon trains stopped in front of the westward semaphore would automatically move eastward. There is no such automatic switch.

The agreements and conventions among our socialist countries outline the directions of action. Of special importance is the /Long-Range Program for the Development of Economic and Scientific-Technical Cooperation Between Poland and the Soviet Union,/ concluded during the recent visit of Gen Wojciech Jaruzelski to the Soviet Union./ Major integration decisions will of a certainly be made at the coming session of the CEMA./

/But contacts broadening the infrastructure of cooperation should follow on the heels of economic agreements. This could also be defined as deeper understanding among partners, based on growing mutual acquaintanceship and trust as well as on well-conceived mutual interests. This concerns mutual understanding among producers, economists and scientists, serving to implement the intentions of the governments contained in the agreements and to develop among our countries the cooperation that had been initiated 39 years ago./

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CSO: 2600/1033



SOVIET AID FOR MODERNIZING LENIN STEELWORKS COMPLEX

Warsaw TRYBUNA LUDU in Polish 8 Jun 84 pp 1,4

[Article by Andrzej Gesing: "Lenin Steelworks: Deliveries from the USSR Assure Modernizing the Complex"; passages enclosed in slantlines printed in boldface in the original source]

[Text] /(Our own information) On 7 [June 1984] Yakovlev Ryabov, chairman of the Committee for Foreign Economic Relations under the USSR Council of Ministers, visited the Lenin Steelworks Complex. During a meeting with the economic and political management, a number of principal issues ensuing from international agreements for mutual cooperation was discussed./

/As a result, the Soviet Union guaranteed to the Lenin Steelworks Complex the continued complete and on-schedule deliveries of machinery and equipment./

Discussing the scope of Soviet aid, Yakovlev Ryabov declared, among other things, that the establishment of this largest metallurgical complex in Poland is historically already linked to Soviet-Polish friendship and exchange of knowhow. Hence, both when its foundations first were laid and now, the complex has an assured priority in the implementation of economic tasks.

During the working discussions, which coincided with a number of important events relating to the 30th anniversary of the activation of the Lenin Steelworks Complex, and particularly with the work being undertaken by the Government Presidium to modernize the complex, the principal topics were the restructuring of the sintering plant and the implementation of new coke-oven batteries. On the whole, plans exist to expand markedly the participation of the Soviet contracting party in the work to modernize the steelworks.

/In the immediate future some 15,000 tons of equipment will be supplied to the steelworks. This will result in not only modernizing the machinery pool but also reducing the harmful pollution caused to Krakow by the operation of the steelworks./

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CSO: 2600/1033

PRIVATE SLAUGHTER ANIMAL PRODUCTION NOW MORE REMUNERATIVE

East Berlin NEUE DEUTSCHE BAUERNZEITUNG in German No 20, 18 May 84 p 12

[Text] Hog Fattening

The fattening of hogs occupies an important place in private slaughter animal production. In this area, approximately 50 percent of the used fodder goes into the troughs of the porkers. The private producers are fattening approximately 1,700,000 such animals per year. They thus contribute an 11-percent share of the entire market supply of slaughter hogs. Of course, having one's own fodder base is a precondition for a high profitability level also for this category of animal raising. Generally, the young pigs which are bought at weights of from 10 to 15 kilograms leave their stables having a live weight of approximately 150 kilograms. From six to seven grain units are required for this. This corresponds to approximately 600 to 700 kilograms of dry fodder. At the time of the conclusion of a fattening contract, the state makes 100 kilograms of this available. The rest must therefore be raised from one's own sources.

In addition to the fodder deliveries for concluded fattening contracts, our state also promotes private hog production through the producer prices which have been raised considerably in line with the agricultural price reform. For a Quality-Category II slaughter hog weighing 150 kilograms, a private producer was until 31 December 1983 entitled to 973 marks, inclusive of all price supplements. As of the agricultural price reform, the same animal brings in net proceeds of 1,119 marks, which is 146 marks more.

To be sure, the small-scale producers must spend more money for fodder purchases and young pigs. Thus, for 100 kilograms of feed barley under the provisions of the fattening contract, the small-scale producer now pays 25.20 marks more. After the agricultural price reform, the production of small pigs becomes more expensive for the LPG's and VEG's [agricultural producer cooperatives and state farms] and they are permitted to take the higher expenses into consideration in connection with the selling price of the young pigs. On the average, these enterprises now demand for a young pig 50 to 60 marks more than they have in the past.

The income derived from private hog fattening increases to the extent that it is possible to open up more private feed sources for this purpose, particularly

through intensive utilization of backyard gardens and small gardens as well as of the private-plot areas of the cooperative farmers and workers. It is, however, also possible to obtain considerable additional quantities of feed by gathering up feedstuffs left over on harvested acreage of socialist agricultural enterprises made available for this purpose and through collection of kitchen refuse. If it is possible in this manner to cover the feed requirements transcending the 100 kilograms of grain, then the small-scale producer's income from hog fattening which has already attained a notable level as a result of the agricultural price reform will be increased by another 60 to 70 marks, provided that the slaughter animal weighs 150 kilograms at the time it is taken to market.

#### Cattle Fattening

During the past year more than 110,000 head of cattle were fattened by private producers. The particular advantage of this consists in the fact that the ruminants need considerably less concentrated fodder per dt [100 kilograms] of weight increase than hogs. The better the quality of the available raw fodder (green fodder, pasture grass, hay), the more concentrated feed can be saved. Private producers who sign a contract may receive 300 kilograms of feed grain. Through the new regulations the fattening of cattle has become still more rewarding than has hitherto been the case. Those who are contractually using splinter pieces of land and who are thus creating for themselves the required fodder basis should not hesitate to place in their stable a calf or a heifer for fattening and to conclude a contract with the meat combine in connection therewith. Thus, at the present time the producer's price for fattened cattle in Quality Category I is 1,466 marks per 100 kilograms of warm slaughtered body mass. This amounts to 810 to 830 marks per 100 kilograms of live mass, depending on whether fattened bulls, oxen, heifers or slaughter cows are involved. There is, in addition, a price increment for heavy animals. In the case of fattened bulls with a live weight of between 473 and 525 kilograms this amounts to 250 marks per animal and in the case of fattened heifers within the same limits it amounts to 400 marks per animal. In the case of weights exceeding 525 kilograms, 350 marks are paid for fattened bulls and 400 marks per animal are also paid for fattened heifers.

For a 500-kilogram fattened bull in Quality Category I, a private producer will now get 4,400 marks. That is 930 marks more than he got before the agricultural price reform. In contrast to this, he pays for a calf 120 to 130 marks more than before and for 300 kilograms of feed grains bought on the basis of the fattening contract he pays 80 marks more than before. The 930 mark surplus in proceeds contrasts with approximately 200 marks of increased costs. Even in cases when additional feed grains must be bought from the agricultural producer cooperative at new agreed-upon prices, the increased income from cattle fattening is still considerable.

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CSO: 2300/507

FEKETE LECTURES ON HUNGARY'S FINANCIAL POSITION

Budapest MOZGO VILAG in Hungarian No 5 May 84 pp 3-9

[Address by Janos Fekete at the Kossuth Club in the autumn of 1982]

[Text] The Hungarian leadership has sought to bring production relations in harmony with producer forces--this is what we call reform. And now more and more attention is being paid to the reform. At the 26th Congress of the Communist Party of the Soviet Union, Comrade Leonid Brezhnev said that it is worth paying attention to the results of Hungarian agriculture. But if the Secretary General of the Communist Party of the Soviet Union regards Hungarian agriculture as worthy of attention, this means a recognition of the entire Hungarian reform. If there is an area in the economy where the reform is working well, or at least almost as well as it ought to be, this is in agriculture.

We worked out the reform with the party's leadership. In 1965 we were busy debating what we should do and then in 1968 we introduced it. I regard this as important because there are some who believe that a reform can be introduced within two to three months, a half year or a year. This is a mistake, much more time than this is necessary.

What did change on 1 January 1968? Even prior to that time there had been a number of reform ideas in the Hungarian economy, but the general medium was the direct plan command system. On 1 January the major change was that central economic planning was retained, but plan command by enterprises was eliminated, and in this environment a new system prevailed in which we sought to make enterprises independent. After all this, therefore, in 1968 we implemented the reform of planning, but we were not strong enough to proceed effectively on other lines as well. In addition, we had to implement the reform essentially without any reserves; our foreign exchange reserves were modest, and we tried in vain to acquire additional reserves. Our only reliance--and our confidence was not without basis--was on the hope that the change would release new, important forces, which would substantially influence our situation favorably. For example, we maintained--and this was no small risk at the time!--that whoever has forints and an import license will also be granted foreign exchange for imports. It took a long time for the enterprises to believe that they could count on this and to see that this was in fact the practice. Then gradually superfluous stockpiling was eliminated, for there was no need to

import twice as much as necessary, thinking "that if they won't grant any next year. . . ." When we achieved this, we acquired an equilibrium. It is still an important problem for the equilibrium that enterprise managers should understand we have enough foreign exchange as we need to keep production steady and to import necessary machinery. On the other hand, we do not have enough foreign exchange for everyone "to sleep peacefully." We do not sleep peacefully and the enterprise managers shall not sleep peacefully either, for there is no way that the enterprises can "fill up" for a year or two ahead, come hell or high water--if we have import possibilities or not--and they will be taken care of. This danger has again risen after many years.

Perhaps arbitrarily, I shall divide the 15 years which have passed since the introduction of the reform into three periods: the first the golden period; the second the period of illusions; and the third and present the period of realities.

When was the golden period and why do I call it that? Because from 1968 to 1973 all the four "magic indexes" in Hungary developed very favorably; production increased; there was no unemployment (of course in Hungary this is not a new but a common phenomenon), the prices were stable, and the balance of payments was favorable. This was, in fact, a great achievement. What was the reason for it? In my opinion, most important was the fact that the reform released forces at the enterprises that without new, large investments lent an upswing to the development of the whole economy. The other cause was the fact that for Hungary the foreign market situation was extremely favorable. There was an economic boom in the West and everyone was buying everything, it was easy to sell, and finally it was a time of detente.

Then in 1973 the first oil-price explosion occurred, a recession appeared in capitalist countries, and then it became evident that we had been living in illusions. For example, we were shocked to perceive it was all an illusion to believe that our commodities were as good and as competitive as we believed in the time of the economic boom when Western firms were "grabbing for" Hungarian products, and we had no sales problems in CEMA. It was also an illusion to believe that the rise in capitalist prices and the oil explosion did not affect us, for there are two world markets and if something happens in one we can "blithely move" over to the other. We also said that the rise in oil prices was temporary, the prices would fall because such high prices could not be maintained over a long period of time. Later, however, the price of oil did not decline, on the contrary, the second price explosion occurred. I believe that everyone knows by and large what the consequences were of these illusions in this second period from 1974 to 1978. For example, we counted on an annually increasing import of materials and energy from CEMA partner countries; we moved ahead in social policy because we felt we were so "strong" that we could now give more. And all this at a time when it should have been our obligation to tighten our outlays where we could, for our price losses--the deterioration in terms of trade--came to a very serious amount.

I believe we have not basically and self-critically evaluated the period 1974 to 1978 although it should be very important that we do so lest we fall again into the mistakes we committed then. . . We were also uncertain whether we

should continue the reform or whether we would have to retreat, the views that supported growth at all cost came to the forefront and the consequence was an increasing indebtedness. Planning did not truly acknowledge that the world had changed, and the same trends appeared in the plans as before: foreign trade should increase, the national income, living standards and, in a word, everything should increase as before, and all this with the help of many, many new investments. Meanwhile, material and energy imports from CEMA countries became more difficult, and we had to pay out more and more in capitalist foreign exchange for essential material imports. There was also a theory--one of the most dangerous of the illusions--that at unchanged prices we would be in great shape, for if we calculated at unchanged prices--they said--we would have a surplus commercial balance and a surplus balance of payments. But who was interested in what would be the situation at unchanged prices which did not exist? Prices "live," they are what they are, and therefore losses are as great as they are. Thus during these years the domestic and foreign balance deteriorated and this was accompanied by the danger that we could expect greater problems if we did not change our economic policy.

And now let us look at the third period, the period of realities. I must say that the realities meant we were not always able, and this is still the case, to take popular measures. In October 1977 a party resolution grasped the essence of the problem--the necessity of structural transformation--namely that in the present structure rapid growth increases the convertible foreign trade deficit. The Central Committee resolution passed at the end of 1978 indicated that in addition to preserving the gains already achieved the equilibrium was the most important priority of the Hungarian economy. These were good resolutions although they retained certain illusions. Such, for example, were the illusion that material imports would increase in CEMA trade; and that in time the terms of trade would develop favorably for Hungary. Fortunately for us, the Soviet Union employed world market prices for its deliveries in a staggered and gradual manner on the basis of their 5-year averages, and this gave us some breathing room to adjust to the new situation. We began the adjustment but unfortunately too late. Meanwhile, in addition to other countries, Poland and Romania became insolvent, and this caused such a shock on the international money market that its consequences extended also to us. The shock was actually caused by the fact that it was formerly believed by many that if one of the CEMA countries was in trouble, "the umbrella would open" which the Soviet Union holds over the country concerned and protect it from all troubles. But despite all its good intentions and efforts, even the Soviet Union is not capable of paying "out of its vest pocket" all those large debts which, for example, Poland accumulated through erroneous management over many years. The Soviet Union was supporting, and still is, the Poles, it sent a great deal of raw materials and many other things, but it could not undertake to pay their more than 20 billion dollar debt.

This created a new situation: if the "umbrella" of the Soviet Union will not protect the socialist countries--they said in the West--these countries can easily go bankrupt. After the failure of the "umbrella theory" there was panic on the Western money markets and they fabricated a new theory, namely, the "basket theory." This meant that if two socialist countries could have such serious economic difficulties, it is obvious that the others would follow.

Therefore--they proclaimed--deposits and credits must be withdrawn from every socialist country, and new credits could not be given, because from the economic-financial point of view the socialist world is collapsing. Everyone get out who can, and take his money with him as long as he can! In this critical international situation Hungary, too, found itself in difficulty: all our depositors and creditors wanted to take their money at once. But as far as I am aware there is no bank in the world which could satisfy all its depositors at once. Fortunately, we had been sufficiently cautious, our short-term debts were about equal to our short-term demands, and thus during the panic we were able to pay the deposits at the cost of our reserves. But the reserves declined rapidly, and this brought the economy into a dangerous situation. The party and government decided that we must under all circumstances guard our ability to pay and meet our payments obligations. If we were not to do so, we would not only suffer a loss of prestige but serious economic difficulties would arise for us which would make necessary a drastic reduction in investments and living standards, which had to be avoided in every way.

Meanwhile, steps were being taken to have Hungary join two specialized financial institutions of the UN--the IMF and World Bank. They accepted us after 6 months of negotiations into both international organizations, and in such a way that not one of the 146 member countries voted against Hungary's acceptance. The quota, that is, the capital stock to be paid in which formed the basis of the credit grant was established at somewhat above 400 million dollars. Twenty to 22 percent of this must be paid in convertible foreign exchange, and the rest in forints. This was done and we are now members with full rights. Whatever we paid in foreign exchange can be recalled at any time and thus does not represent an economic burden.

Membership in the IMF helped us in the international judgment of Hungary in that our partners on the markets for short-term credits were reassured because they knew that in case of liquidity difficulties member countries are entitled to receive certain credits in the sense of the bylaws. We made use of this possibility and requested the Basel-based BIZ (Bank for International Settlements), which is the central bank for the national banks, to extend us assistance until the IMF vote--that is, for short-term credits--with which we could keep our reserves near the usual level. We did in fact receive 610 million dollars in credits for 6 to 9 months with which we bridged the "danger-fraught" period. Meanwhile the commercial banks came to think that if we were good for the national banks then obviously there were no troubles with the Hungarians. In this way, we were able to acquire 260 million dollars in medium-term credits from a bank consortium led by an American bank. And now there was also the possibility of a long-term--15-year--loan from the World Bank. But even of greater importance for us than these credit possibilities is the fact that by virtue of our World Bank membership we are able to participate in all invitations for applications that the bank finances anywhere in the world. Up to now we were barred from this possibility. If we have a successful role in these tenders, it will mean we are able to sell investment goods for cash which otherwise we could sell only by extending 8-10-12 years of credit, or perhaps we might even sell them to indebted organizations without repayment security.

I would like to caution everyone against erroneous ideas: according to some, we have come under Western influence; according to others we have arrived in Canaan and we now need only accept the credits. For us the importance of the membership is that the international organization can extend us temporary help. We must acknowledge that in the final analysis no one is going to help us out, we can rely only on our own better and more efficient work. And if we receive credits--and we already are--then we must use these in the plan framework for the goals which we have set ourselves, and we must not use the credits, for "building cloud castles," for investments over and above the plan. This calls, of course, for self-restraint. I am convinced that the government has learned from the past and will use the credits for such purpose. To return to the question of whether or not we are becoming too dependent on Western financial organizations, I can assuredly say no. There are no such problems deriving from the bylaws, which at the time were also fundamentally studied by the socialist countries. It states in the bylaws that every country develops as it seems fit, and as long as it does not request credit it has no problems at all. If it requests credit, it is asked why, and then the credit is granted under certain conditions. In our case it is fortunate that the requirements placed on us coincide fully with those which we set at the 12th Congress and tried to carry out in the succeeding years--not with full success. What do they in fact want of us? Economic equilibrium, the equilibrium which we ourselves proclaim as necessary and would like to realize as soon as possible, and to which we have now come rather close. There are those who say this means greater dependence. I would ask: which is the greater dependence: if we owe 2 to 6-month credits to banks or if we accept 5 or 7-year credits from the IMF and 15-year credits from the World Bank?

There is also a supposition that we are greatly indebted. Many people ask why we did it and why we were not more careful. The truth is that we do have debts but we are not an over-indebted country. Our economy is basically healthy, we have very good and modern plants but also weak, obsolete plants. The production averages of our agriculture are at world level, but the prices for these production averages are not realistic, in other words we are producing at too high cost. Our tourist receipts have increased by leaps and bounds but earnings per guest are still very far below the international level, which obviously means that our services are not what they should be. It is indisputable that we are developing in many areas. And still now the "favorite" statistical index of the Western press is that in respect to per capita indebtedness we are "in the vanguard." They say that in this area we are worse off than Poland because in Hungary the gross per capita indebtedness is around 700 to 750 dollars (net 500 to 550 dollars). The following shows how deceptive this index is: per capita indebtedness in Denmark, Sweden and Austria is several times higher than ours; at the same time the world's least indebted country on a per capita basis is Pakistan, where it comes to only 136 dollars per capita, or Bangladesh and India, where it is even less. In judging questions like this it is not important what is the per capita indebtedness, but how much a country's exports amounts to. The volume of our exports several years ago was greater than India's!

But let us project this matter of indebtedness from still another way. According to the Western press, the socialist countries owe a total of about



60 billion dollars. This is a large figure, but if we look more closely we see that 25 billion of this is Poland's, 10 percent Romania's and the remainder the Soviet Union's and the smaller CEMA countries'. At the same time a single South American country, whose production or development level is nowhere near that of the CEMA countries--Mexico, for example--owes about 80 billion dollars. Its indebtedness is greater than that of the entire CEMA bloc! Brazil has a debt of 90 billion dollars, and the remaining South American countries about 130 billion dollars, that is, the total indebtedness of the South American countries is about 300 billion dollars, or five times as great as that of the economically stronger CEMA!

From time to time the question is raised why capitalist banks and international organizations give help to a socialist country. Is there something behind all this, that we have given up our socialist principles and they are helping us because they hope that we are moving on the road to capitalism? This is not what it is about! It is a fact that Hungary has international respect, it is also a fact that our political leadership is respected extremely highly everywhere, but for all this no one would have helped us. The reason for the help is that the world is on the brink of a great economic and credit crisis, and if this happens it cannot be stopped with barriers at the borders of the socialist countries. If the crisis starts, it will affect the Western banks as well as the enterprises of the socialist countries. We are discussing here, therefore, actually the self-defense struggle of the capitalist banks, which coincides with our interests. A great economic crisis is in no one's interest. What can be expected, in fact, from a great economic crisis? First of all unemployment, and from this those will suffer the most--the working class--whom we regard as our allies. Secondly, what guarantee is there that some kind of progressive political direction will develop from a great economic crisis? After the 1929-1933 crisis Hitler and Mussolini, fascism and the war came. There is no guarantee that the masses will move in a direction thought to be proper by us. And finally, one other thing: Hungary has to export, for this we need markets with ability to pay; if we can export more, production will increase, national income will increase and we will be able to raise living standards. Thus we would be fighting ourselves if we were to say that a serious crisis in the West would result in something positive for us in the economic area.

There are many who call us to account saying we are not growing. Growth--in my opinion--is an important goal and must be kept always in sight. But only that kind of growth is desirable where industrial branches, enterprises are growing that make products that can be sold profitably. The economy must grow not in general or in branches where growth is not desirable, where the products can be sold only at a loss or not at all, and only inventories grow. I believe we are not committing a mistake if we set as our goal a lower growth or zero growth, because zero growth may mean growth of the good 10 percent and the retro-development of the weak 10 percent. To do this, however, we not only need to increase the good 10 percent but we also need finally the courage to retro-develop, and if necessary to eliminate those enterprises which have operated at a loss for years, and are therefore depressing the national income rather than increasing it.

They also say that we are holding back socialist exports, although we could export more goods to that sector. The possibility to do so exists only if we can obtain countervalue. In the socialist relation the realistic and correct policy today is for us to fulfill exactly every contract which we sign, and over and above that we will deliver if we receive as countervalue goods that are necessary for us.

Last but not least, the reform. We cannot stop half way! I am convinced that we cannot go backward, only forward. This means that we must carry out consistently--more consistently than up to now--what we decided on in 1968. Those temporary measures which--in accordance with the 1978 resolutions--serve the restoration of the domestic and foreign equilibrium, the guarding of our international ability to pay were necessary and were designed to realize the 1968 goals. To the extent and at the rate that we succeed in realizing these goals we will be able gradually to loosen the "temporary restraint" used in imports and investments. Only a loosening of the restraints in this way and the widening of the reform process will create the conditions for more efficient management of the enterprises, and assure us that the Hungarian economy will develop further, and that our living standards will rise on a well-established economic base.

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## HUNGARY

### KAPOLYI INTERVIEWED ON PRESENT, FUTURE OF INDUSTRY

Budapest OTLET in Hungarian 19 Apr 84 pp 6-7

[Interview with Laszlo Kapolyi, Minister of Industry, by Ivan Wiesel:  
"Our Industry's Present and Future"; date and place not specified]

[Text] [Question] Today the statement is often heard in various forums that agriculture is the national economy's successful branch; on the other hand, industry is in a crisis, at a rock-bottom point. What is your opinion of this assessment?

[Answer] Experiences in the economic development of socialism so far demonstrate that in a planned economy, too, the well-knit, uniform and at the same time dynamic development of the various branches is realized only gradually. The results of the development of agriculture in the last decade were truly outstanding, and behind the results are concealed persistent developmental efforts supported and stressed by the state. Industry also took part in these to a significant degree; let us just consider the furnishing of artificial fertilizer and plant-protection agents for agriculture and agriculture machine production. The ownership and interest relationships in agriculture favored the development of the requirements of the economic reform. Initiative and enterprisal spirit increased, an ambitious, agrarian intellectual class and a staff of leaders evolved, and the integration of large-scale and private farming was realized. In the deficiency zones of industrial production there appeared the agricultural ancillary production branches; these also contribute to the income of the agricultural branch.

In the course of fulfillment of our industrial policy tasks we must not neglect the agricultural experiences--while weighing industry's particular conditions.

As far as the second half of the question is concerned, I consider it exaggerated, even false that Hungarian industry is in a crisis. Industry's development, compared with advanced industrial countries, does not indicate a crisis. Our production in the years 1981 to 1983 increased 5.7 percent, while in the main advanced capitalist countries industrial production declined, stagnated at best. Although industry's growth in these years was slower than what we were previously used to and less than what our national economy expected from industry, we have nothing to be ashamed of.

We must take into account, for example, that industry also had serious "drought phenomena" in the years mentioned. It was this way: the structural crisis of iron metallurgy, the decline of the aluminum market, and the large-scale drop in demand for chemical substances.

In the interest of quality development, industry must to an increasing extent contribute to providing agriculture with machinery and, in general, to satisfying its needs for products of industrial origin. Moreover, industry must also undertake greater export tasks than previously. For this reason I do not consider fortunate the "success/crisis" comparison of the activity of industry and agriculture, because it adversely affects cooperation between the producers.

[Question] In the technical literature of economics the controversy continues about whether the tasks of industrial policy are defined.

[Answer] We have defined industrial policy's concrete tasks, which do not merely touch upon the industrial pocketbook, within the framework of a governmental action program. Thus today there is still no collection of tasks worked out in detail. The existence of an industrial policy concept cannot be called into question, however.

[Question] Experience shows that the definition of certain concepts creates the potential for very wide mobility in the allotment of tasks. Indeed, I would venture to say that in the course of implementation the concept is now and then blurred. Do you consider the creation of the unity of goals and tasks to be guaranteed?

[Answer] It is not easy to answer this question so that in a couple of years it withstands the test of an encounter with the facts. I believe that the primary goals of industrial policy are, namely, an increase in orientation toward exports, more efficient management of materials and energy, significant modernization of background industry deficiencies, growth of productivity and income-producing capability, and such elements of the guarantee of competitiveness whose realization is thoroughly verifiable in the long run. The industrial policy tasks, plans of action and programs for intensification must be influenced in this direction. As far as scope of movement is concerned, there is a great need for this, because on a governmental level it is not possible and it is not permissible for us to undertake to strictly designate the practicable methods of tasks and their implementation. The enterprises have to know by which means they reach the fixed goals in a given case and under the circumstances on the markets. Therefore, definition of the tasks of industrial policy presupposes industrial and functional guidance, as well as considerable harmonization of enterprisa strategies, the joint assessment of resources and potentials and the designation of necessary priorities, as well as the determination of a purposeful division of labor.

[Question] You mentioned that the industrial guidance wishes to train the enterprises in strategic viewpoints. At the time of the establishment of the Ministry of Industry three years ago, the government resolution clearly fixed this task. Did the ministry succeed in finding its place in the system of macroeconomic management?

[Answer] Three years is a short time for striking a balance. Especially when we wish to give an opinion about a new organization which up until now has not operated in the building of a socialist economy, and therefore we cannot borrow experiences from the practice of the socialist countries. The shaping of general goals into tasks is accordingly not simple for us; in many cases we have to shoulder the difficulties of seeking ways and means and even the risk of errors. Nor did objective circumstances favor the new organization. Last year the general slowdown of economic growth and the solidification of operational tasks provided a lot of work which requires a short-term sectoral management style, but there is neither the workforce nor the necessary tools for this. What also troubles us is that with the establishment of the Ministry of Industry consistent changes did not take place in the remaining organizations of macroeconomic management. Thus the necessary division of labor, which sometimes brings about parallel management, did not take shape with the functional management. Nowadays I consider it most important that the relations develop rapidly with the enterprises in a spirit of mutual trust so that among the management organizations the boundary lines and the resource systems of the division of labor evolve more and more clearly. The experiences so far of the activity of the Ministry of Industry prove that the uniform industrial policy management in this organization is fully enforceable.

[Question] Nowadays in industry the conflicts between the new organizational forms and the large enterprises present themselves rather sharply. What is your opinion of these?

[Answer] In industry 18 new enterprises came into being in 1981, 13 in 1982 and 17 in 1983. Appearance of the new organizational forms in industry called forth, or brought to the surface, certain tensions. The standpoint of the Ministry of Industry is that in the future enterprisal organizational system every enterprisal dimension has its particular place and task. The only qualifying factor is in what way the given enterprise serves the growth of added value in the economy. For this reason the ministry will continue to encourage, where the conditions are suitable for it, the creation of small and medium-sized enterprises which are mobile and operate profitably.

[Question] The iron laws of life also prevail in our industry. The intensive path of economic growth requires leaders who are creative and capable of following the changes, or going before them. The leadership generation which grew up in a period of extensive development in industry suited the requirements of that time, but today a part of them, due to the characteristics of the age group, is no longer able to adapt to the new

requirements, and in spite of their good intentions they have turned into conservatives. But I am afraid of the generalization, because in not one spot at the head of our large enterprises do leaders stand who are ready to take the initiative and qualified for intensive development, who are constantly capable of being renewed. While pursuing new methods in our personnel policy, in the attainment of leadership spheres of activity we give a greater role to the competitive system. I believe that first and foremost the young industrial branches--for example, computer engineering, biotechnology, microelectronics and automation--want young experts, already trained for this, on the leadership staff as well. Generally speaking, in the future the opportunity for development must be given to young people working in industry. The creation of industry's technical and economic leadership elite is a complex task which begins at the schooldesk and runs through the workplace. It seems that we did not prepare ourselves for this.

[Question] At a recently held lecture of directors of industrial enterprises it was emphasized that there was a need in industry for a complex enlivenment program. What is the meaning of this?

[Answer] Our national economy and our industry cannot avoid the scientific and technical challenge of our time. It is our grave historical responsibility that we know how to hold our own at this fateful turning point; after all, the prosperity of future generations depends for the most part on our decisions. We cannot dissipate our efforts in action; various momentary interests cannot disrupt their unity. Macroeconomic management, planning of the national economy, economic regulation, the strategy of technical development, the internal mechanisms of enterprises, the social role of industry, all are factors which form a complex system. The Ministry of Industry can give recommendations and directions to be followed for boosting enterprisal work. However, only the enterprises know concretely what it is possible to do in their situation. We would like it if every worker of industry in the possession of a local, special knowledge would, with reference to this, consider concrete suggestions: how is it possible to mobilize the existing and the unused potential at their enterprise; what kind of moral and material incentive leads to greater individual performances; what kind of technical/developmental and market strategy helps their enterprise to adapt more profitably to the changing demands of the markets; how is it possible to involve every worker in innovational activity, how to increase the creativity of the constructive intellectual class. We therefore plan and suggest that in enterprises, research institutes and various professional organizations the leaders and the subordinates, the workers and the intellectuals, the experienced and the young jointly give consideration to what they can do so that concrete ideas and proposals serving renewal are born and come to fruition in a wide domain.

[Question] Finally, let me ask this: what kind of future does the minister of industry forecast for the turn of the millennium?

[Answer] At present the ministry is working on the tasks of the seventh five-year plan, and this is why I will perhaps first speak about the prospects up to 1990. In the next five-year plan I consider it most important that the development of industrial production must pick up speed and that by the end of the plan period the current 1 percent growth rate must be raised to 2.5-3 or perhaps 4 percent. The role of intensive factors is extremely important in this growth, because we cannot count on significant expansion in investment possibilities, in workforce resources, and in material and energy utilization; indeed, the diminution of the workforce in industry will continue. There is a need for exports to increase to a degree surpassing production, namely, by a decreasing specific import content, so that a systematic rise of foreign exchange returns becomes possible. It is also important that with the acceleration of technical development the transformation of the product structure promote an improvement in exchange rates and a higher level appreciation of Hungarian work. I consider it essential that we assert our intentions in the course of continuing plan harmonization with the CEMA countries. We have the opportunity for this if we know how to make our supply of goods attractive and on an identical level qualitatively with that of the advanced capitalist countries. In shaping the development in such a direction what also has significance is that our enterprises establish closer and closer cooperation with the enterprises of the CEMA countries.

For farther into the future, for the year 2000, a good initial foundation is offered by the long-range planning work which is progressing in the planning office and in the ministry. On the basis of these--instead of guide numbers--I would like to fix the most important long-term goal. Thus, in the first place, it would be desirable that in the year 2000 our industry, taking into account its chief parameters (productivity, material and energy use, quality, modernity, etc.) attain-- or at least approach--the level of advanced small countries with natural endowments similar to our native land. Even today the attainment of this goal requires great output from the workers in industry and from our entire society.

12327

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## ENTERPRISE ORGANIZATION REFORMS OUTLINED

Budapest FIGYELO in Hungarian 31 May 84 p 3

[Article by Istvan Csillag, Tibor Draskovics, Laszlo Lengyel, Gyorgy Matolcsy and Eva Voszka: "Reform of Enterprisal Organization and Management: Risks and Chances"]

[Text] In recent months, participants in work aimed at the development of the macroeconomic management system have expressed their ideas in various forms and forums. At the April session of the Central Committee of the Hungarian Socialist Workers' Party the important phase of change and renewal was the accepted standpoint, which outlined the directions of further measures. The work did not conclude with this: the concrete methods of change are now taking shape. We believe that before the professional public such solutions can be developed which are suitable, or at least acceptable, to the economy's performers and to broad layers of society. For this reason we are setting forth our thoughts, as one possible proposal.

### Sweeping Transformation

In accordance with the Central Committee standpoint developed on the basis of a comprehensive analysis of practical experience, there is a need for a sweeping--thus embracing not only individual management elements--transformation of the economic mechanisms. The natural bases of these elements are the market-economy organizations. Therefore, solution of the enterprisal organizational question is the condition for, and at the same time a key element of moderization of the macroeconomic management system. This in fact lays the foundation for the institutional guarantees which enable the reform process to survive.

The goal of transformation of the organizational system is that the economic units in range of effect and in depth become independent performers of an extensive, regulated market and that by this means the interest and the enterprisal readiness of leaders and workers become stronger. At the same time this change is also the precondition for improvement of the economy's continuous capacity to be planned and for strengthening of governmental management's ability to influence the market.



For this it is essential that in the sphere of competition the method of exercising disposal rights of state property be changed, and that the sphere of macroeconomic management and the sphere of management on the household level be separated systematically and unambiguously. Discontinue the direct ("in everyday affairs") dependence of enterprises belonging to the competitive sector on state administrative agencies, i.e., the external agencies--the state and party management--should not take over such entrepreneurial decisions from the economic units. These changes do not affect the social character of property; on the contrary, it means a higher level of socialization if the laws of disposal are exercised not by the state administrative apparatus but instead--in a manner defined by laws--by the enterprisal community, or rather by their representatives selected according to legal rules.

The natural medium of independent market organizations is competition. Its deployment presupposes the establishment of enterprisal forms suitable to the differentiated economic conditions, the abolition of unjustified and artificial monopolies, and an increase by size of the number of economic organizations--the competitors.

The individual enterprisal types must be equal in rank, i.e., among the possible solutions there is no "primary form" which would mean distinctive treatment for those concerned or the possibility of another sort of success by avoiding market competition. In this way the artificial differences among the state sector, the cooperatives and the small enterprises could be lessened and then could cease to exist.

#### Organizational Mobility

The formation of an enterprise is an entrepreneurial decision. In the future the enterprises will come into being, for the most part, as subsidiary and as partnership on the initiative of banks and economic organizations. (We are not now concerned with the small enterprises.) The current "founder" role of state administrative agencies will fade, since it will not be possible in the future to found an enterprise through the reorganization of existing enterprises. Hereby prevails the fundamental principle that an enterprise can only be founded by someone who is able to acquire the resources necessary for it (enterprisal development funds, state capital allocation). The state agencies will continue to manage the public utilities and the enterprises qualified to supply the infrastructure's tasks belonging to the state domain, but this sphere would be isolated from the enterprises potentially belonging to the competitive sector. It follows from this that we cannot consider the reclassification of today's state enterprises into the new forms envisaged by us as something established; that is the initial operation of macroeconomic management's modernization.

Delegation to the enterprisal level of disposal rights arising from property can lay the foundation for the self-development of economic organizations and for the emergence and assumption of organizational forms most suitable to actual market functioning. By this means the organizational type intervention of state administrative agencies becomes uncommon and essentially takes aim at the prevention of the emergence of monopolistic situations and at the observance of legality.

New mechanisms must also be developed for the abolishment of enterprises. From the independence it follows that the enterprisal collectives and enterprisal associations can decide on the appropriateness of the enterprise's abolishment; the state administrative agencies sanction it. This can most often ensue if the enterprise is losing money steadily or is insolvent. In this case the creditors can also request its abolishment in the form of bankruptcy proceedings. This possibility can establish that the permanently unprofitable organizations do not sponge on society. Consequently, there will also be the alternative for us not to conceal the troubles of such enterprises but rather bring them openly to light and solve them.

In the case of a steadily law-infringing operation the agency exercising legal supervision orders the enterprise's abolishment. Apart from this, a state agency could not order an enterprise's abolishment--for instance, its reorganization. In other cases of abolishment the state agencies exercise control in the interest of protecting society's goods.

The resources of an abolished enterprise--after satisfaction of the creditor demands-- would return to the state's resource pool, thereby providing the possibility for establishment of a newer enterprise. From all this it follows that the separate treatment of so-called crisis branches--in which the sectoral-professional directive agency determines the applicable procedures--is not compatible with the questions of enterprise establishment reorganization.

#### Selection of Leaders

Another important area in the exercise of property rights is the selection of leaders. The essence of the change may be that administrative agencies do not appoint the directors of economic agencies but rather the enterprisal community--in another type of enterprise the workers in agreement with lower level leaders--makes the choice. The growth of enterprisal independence and, within this, the new system of selection of leaders enhance the role of enterprisal political and social agencies. It strengthens the party's policymaking and managerial role if the personnel policy at all the enterprises of the competitive sphere the enterprisal party organization or rather its members endorse and implement the upper level party resolutions, since they can directly perceive and influence the course of enterprise policy decisions.

The termination of personal dependence on state administration means that the leader's attention can be directed at the market and at the development of enterprisal profits, and that this does not conflict with the expectations embedded in the framework of leader interest. For this it is also necessary, of course, that the leaders' interest is linked in essence with the retention of the leader position accompanied by a greater basic wage level, and that the interest in long-range profits and in increasing enterprisal assets succeeds the interest connected with the year's profits.

In the course of conflicts of interest the enterprisal leaders must assert their independent interests. The organization for assertion of the institutional interests of enterprisal leaders might be the Hungarian Chamber of Commerce with the internal organization, sphere of authority and licenses necessary for this.

## Internal Mechanism

At present a large part of the enterprises in an administrative ensemble of several units, separated territorially, and with particular interests. Today's enterprisal internal mechanism, which provides a playing field for the assertion of interests, tends to filter these interests rather than give direction to the total enterprise's ambitions by basing itself on them. It therefore seems advisable to develop internal enterprisal organizational forms which make possible market measurement of an operation's success at the internal economic units.

The enterprise's fundamental units, which possess relative independence, could come into being on the initiative of the unit concerned in the case of approval of the enterprisal leadership. The units could be dissolved, could be transformed and in the course of their internal cooperation their boundaries could change. For example, a unit established temporarily for a market order could be dissolved, but in another combination it could be remodeled for a new task. The internal units would operate on the basis of an independent statement of accounts; their work would thus become susceptible to planning by the enterprisal leadership, its successfulness computable. With the transformation of an internal unit into an enterprise, its interest relationships could be developed which would contribute to the elimination of the internal holding back on output.

It is advisable in the enterprise's organizational and operational rules to lay down the conditions and limits of the operation of semiautonomous units. Such a solution is also conceivable in which agreements provide the obligations and rights of the semiautonomous unit toward the enterprise leadership and the other internal units. In the latter case the content of these could be, for example, the definition of activity, the use of the internal semiautonomous unit's capacity and the degree of its applicability for outside work, the system of applied prices, the accounting obligations of the internal unit, the method of participation in the utilization and distribution of enterprisal profits, or the rules for formation of personal income.

The disputed question in connection with the semiautonomous units is whether the right of succession from the enterprise affects them. According to one standpoint, this would create insupportable uncertainty for the enterprise leadership. However, the other opinion expects favorable results from it, since it would direct today's spontaneous actions, for example, group withdrawal, into a verifiable and calculable channel. It should be bound to the strict conditions of succession--previous announcement fixed to a definite time, restitution of a significant part of the resources taken out. What is necessary, aside from this, is systematic strengthening of the right of initiative affecting internal organizational units and concerning the development of the legal framework of independent operation.

## Supervision of State Enterprises

The essence of the proposed change in the relationship of macroeconomic management agencies and enterprises belonging to the new enterprise leadership form is that from now on the formation of an organization and the appointment of its leaders do not fall within the scope of authority of state administrative agencies. With this, enterprise supervision, taken in the present-day

sense, comes to an end for enterprises belonging to the sphere of competition. This activity, which provides scope for instructions and officious care, is superseded by legal supervision, the essence of which is that the authorized state administrative organization verifies whether the various economic organizations are operating in compliance with the rules of law and the foundation resolutions. Thus legal supervision cannot take up the question of the suitability of responsibility for provisions, export obligation or enterprisal decision respecting statutory limits.

The legal supervision exercised over the state enterprises is the new task of state administration. Since the foundation agencies exercise the legal supervision, what must be avoided is that the interventions practiced on the property right--for instance, the right of agreement exercised at the time of selection of the enterprise leader--merge with the legal supervision characteristic of state power or rather with the sectoral economic policy influence, since this would only mean a "repainting" of the signboard of the current--today vast--dependence. In the interest of preventing this, special organizational solutions must be applied. For example, a separate office with a small staff should be created at the foundation ministries, or the administrative and legal departments must be instructed to provide legal supervision. Moreover, it must be made possible for the enterprises to rightfully contest in court a resolution adopted by the legal supervision.

In addition to the legal supervision there would, of course, also continue to exist--in the sphere of authority of those organizations which exercise it today--the system of financial and special-power control.

It is advisable to announce at once the modifications of rules of law which became necessary for reform of the organizational system; it would, however, be advisable to carry out its introduction at a fixed tempo. It is not expedient to extend the introductory period for a longer time, because this causes endless uncertainty.

It is expedient to link the introduction of the new organizational forms with the solution of the market organization monopoly situation. In the interest of developing a true competitive situation in the total domain belonging potentially to the competitive sector, it would be justified to create a good "starting position" from the organizational side. A series of regulatory elements directly presupposes this. Thus, for example, that in place of central computational regulations, market negotiation prevails; that the enterprisal income processes come under the control of competition; and that earnings are kept well in hand by enterprisal tax-bearing ability and by competition which places strict limits not on the regulation of the average wage level but rather on the running up of prices and the unjustified outflow of purchasing power. In the reclassification of the new organizational form of enterprises a decision should also be made about the necessity of decentralization.

12327

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## HUNGARY

### ENTERPRISE OF FUTURE SKETCHED

Budapest MUNKA in Hungarian, May 84, pp 40-41

[Article by Otto Purityi: "Managers and Employees at the Turn of the Century"\*--for a related article, see JPRS EEI-84-050, 12 Apr 85, pp 33-36]

[Text] By the year 2000 there will be a "free competitive market" in our homeland. It will not be the enterprise which makes much profit which is "suspicious", but the one which makes too little. Entrepreneurs and enterprises will be highly appreciated. Those enterprises which are working in the competitive business sphere will become socialist undertakings. Extra bonuses for the development of products and new production processes will be recognized and even expected. Enterprise interests will become sharp and ruthless. Such conditions of the existence and accomplishment of entrepreneurial independence as legal security, interest protecting security and safe supply of materials will become realities.

The state organs will interfere only when it is inevitable. Under these conditions, managerial behavior and the subordinates' situation will change considerably.

#### Five Requirements

By the turn of the century, the significance of the principle of one-man management will change. It will no longer mean that one person rules the entire enterprise but that each level and each sphere of activities will have one responsible manager who takes care of his area and who cannot be overridden. Most of the problems will be solved on that level on which they have arisen and the upper-level management will not have to deal with every detail.

The tripartite requirements for becoming manager will become five-fold. Political reliability, leadership ability and expertise will not suffice. Entrepreneurial resourcefulness, imagination, sensitivity to everything which

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\*The author of the article won first prize in a competition called by the prognostics department of the SZVT [Scientific Society of Organization and Management] under the title "The Enterprise of the Future" with a work entitled as above. This article conveys excerpts from the author's thoughts.

is new and ability to innovate will also be required. And since managers will be appointed for definite periods of time, the fifth requirement will be their willingness to take personal risks. Hopefully there will be enough people able to comply with so many requirements! The most important feature of a good manager will be his devotion to his work, his assignment, his enterprise and his collaborators. Devotion means in this context a sense of responsibility, professionalism and enthusiasm.

Upper-level managers will probably no longer be as "democratic" as they once used to be. Their door will not be wide open for everybody, it will not be possible to ask them about everything. Their activity will be guided by the principle of interference only in exceptional cases. They will leave people alone in their work. "Closeness" to people will not entail a patronizing, condescending attitude but the employees' ability to count upon their managers always. Managers will have to obtain their subordinates' trust. A good manager provides stability in employment for his subordinates. He creates an open and sincere human atmosphere, solves tensions with the help of the workers' collective before they turn into conflicts. He invites the best and most informed workers to participate in the working out of decisions, and if he did some wrong, he will admit it openly and correct it.

He will, of course, continue to be the boss in the traditional sense of the word. Nay he will have to be much tougher and will have to protect the enterprises' interest more resolutely than he does at present. For competition will be merciless not only among enterprises but also among those who try to obtain and to keep managerial positions. Slackness will be out of the question. The current dependence of managers on their subordinates' touchiness, i.e., that if they scold somebody he is offended and quits will disappear.

For decades we have tried to jump out of our skin and to change that mechanical leadership model that is oblivious of the working man. We try to strengthen the role of the person, of his individuality and to take into consideration his personality and self-determination. We want to personalize management and to build into its new model the prime movers of the individual's behavior, i.e., satisfaction with his job or yearning for it, interest in the work and in the leader's confidence. We want to heed the working person's frame of mind, his value and interest system and even such abilities as creativity, willingness to do teamwork, physical fitness and spiritual sensitivity. It is difficult to realize all this even in such a natural small community as the family, it is, of course, more so in a rough workshop.

#### Leadership Trends

We tend to individualize leadership, considering that man is in the focus of it with his peculiarities, personality, ambitions, thoughts and efforts to realize himself. It would be so nice--we say--if our managers would apply various leadership brands depending on the characteristics of their subordinates. The principle of equal treatment would be replaced by the allocation of tasks and valuation of work according to the capacity of each individual. For example, everybody would have his own work norm and performance requirement.

This will also turn out as an illusion by 2000! Managers have enough problems. They would go nuts if they had to take into special consideration the mind of each of their workers, assessing it as an objective fact.

It has been fashionable recently to talk about all-embracing partnership that would loosen the tensions involved in subordination and would eliminate its dehumanizing characteristics. But we have not yet been able to discover how to make automatic the relations between leaders and subordinates in a well-organized workshop, how to regard the subordinate as being at equal level with his chief and how to conceive management as an exercise in mutual influence. In our planning and research institutes, in the weekend "maszek" [private sector] brigades, in the business work partnerships this concept may be conceivable but in a factory, in a railroad station or in a department store it is hardly realizable. Yet it is a beautiful idea. More feasible is the so-called group-automatization, for example within a socialist brigade in which some times it is hard to detect who is the leader. There is a possibility for a kind of self-management and for the free timing and division of the work. Yet this cannot become a generally applied system because of the basic character of factory work.

#### The Situation of the Employee

The employee will be involved in the free competition race up to the neck. He will be mercilessly downgraded if he is not up to his task and boldly upgraded if he is talented. Frequently his individual interest will clash with that of the enterprise. The enterprise will be strong in its relation with the employee, but the latter will not be weak either. He will be supported by the workshop collective, the trade union and the law. His sense of employment security will be somewhat weaker than it is now. No one will protect him merely on the basis that everybody has the right to earn an income. He himself has to protect his job with diligence and hard work. The employee will be more dependent on the enterprise from which he receives his wage than he is now.

In other respects the situation of the employee will be better. He will not be constantly overwhelmed by something, no one will try to appeal to his political conscience just in order to compel him to keep discipline in planning work, in production, technology and watching quality. Discipline will be the ordinary and direct result of the fact that material supply and work distribution will be uninterrupted and that materials, machines, tools, designs and job descriptions will be flawless. And if a condition for the proper performance of the work is missing, the worker will refuse to do the work. Nobody will be subject to pressure to produce substandard goods.

Part of it will be to be able to improve, by doing more and better work and by selecting a job that he likes, his and his family's standard of living. The enterprise and workshop trade unions will resolutely oppose the violation of this basic human right that might occur by the management's lack of care for materials, work and interest and by its neglect of the maintenance of machines, equipment, tools and instruments. The worker will have the same authority and power to point out what is missing in the work as the shop

foreman or the chief dispatcher. The interest safeguard position of the worker will be so strong that he will be able to demand his own conditions. Directives and rules will not only flow from the higher to the lower echelons but also from the lower to the higher ones. And there will be no difference in the impact of these two. This will not be a sort of democratic achievement but rather an information circulation and a responsibility-bearing and decisionmaking mechanism, which will be a logical result of the nature of things. Most workers will be driven by technology, by the machinery and the workshop managers by the workers themselves. They will not allow the negligence of the manager to result in loss of money for them. In almost all respects the principle of the creation of proper conditions will prevail. Direct canvassing and dazzling target premiums will be replaced by the stimulating effect of conditions. At the same time, watching expenditures will be more imperative than it is now. Not only the basic performance of the workers will be rewarded but also quality, proper supply management, good use of the machinery and care for the tools and equipment.

At the turn of the century the good worker will neither have to hide his enthusiasm nor be ashamed of it. People will be able to openly admit that they like their job, also in the factory and not only in the private garden, in the basement converted into a workshop and in the business work partnerships. To obtain the boss' appreciation will then be a natural aspiration. What we now call the craze of ambition, will by then be a general phenomenon. The employee's task is to save his chief from headaches. In this way his own head will not ache either.

#### There Will Be No Showcase Democracy

By 2000 many kinds of community property titles will be transferred to the enterprises and thence to the enterprise and workshop collectives. There will be no showwindow democracy in the sense that the masses are consulted about questions that they do not understand; for example what kind of products and how much of them should be produced for export, what should be the trend of product rotation and what kind of new technologies ought to be introduced. There will be no seven or eight democratic discussion forums at which the same problems are discussed, the same persons take the floor, but no high-level managers of the enterprise who would have the authority to speak out on behalf of the enterprise are present. A healthy mechanism of the upward flow of lower level wishes and intentions will develop and a rational coordination of the varied interests will come about.

The enterprise and workshop trade unions will take pains to work out agreements on the crucial questions first with their membership and only thereafter with management. They will represent the interests of the honestly working majority versus the lazy minority who produce shoddy goods. They will put production and those functions which are helpful in the organization of the work and the workshop and promote workshop democracy in the service of the employee's interest production. They will make them tools in their assertion of workers' interests. The importance of preventive and comprehensive interest protection will increase, while subsequent, occasional and corrective interest



protection will be maintained. The work of the enterprise trade unions and that of the managers will become much more difficult than it is now, but it will also be much more unambiguous, and since it will be supported by an active mass basis, it will be harder.

Let us at least hope that it will be so.

12312

CS0: 2500/390

# HIGHER PRODUCTIVITY REWARDED WITH BETTER WAGES

Budapest ESTI HIRLAP in Hungarian 5 Jun 84 p 4

[Text] When various organizations and groups analyzed the activities of the enterprise work associations, certainly the hot topic of last year, they usually concluded that the current system of wage regulation has become obsolete. One of the more recent reports on the topic stated that the current system of regulation still does not establish the best preconditions for working in the main work period. So it seems like the need for an opportunity to earn higher wages during the standard 8-hour workday for the entire enterprise collectively, is justified. Simply stated, everybody is willing to work harder for more money.

Of course, the truth is that the various examinations which affected certain spheres of economic life and consequently defined the need to change wage regulation, simply reported on something that had already been done. Because already in 1983, 30 organizations began to use a 2-track experimental income regulation method, which offered a better chance for incentives and higher wages, if there was a larger profit. This is not small compared to the conditions of general wage regulation.

Naturally, this is not due to using magic on the statistics. Since, according to the State Wage and Labor Office, the industrial firms taking part in the experiment (with the exception of one large enterprise) experienced a dynamic growth in the gross value of production. This should be appreciated even more, since the number of employees (again with the exception of one firm) dropped significantly.

Of course, the value of production can rise due to an increase in the price level too. But this did not happen. The price level increased a modest 2-3 percent, but there were firms where the price level remained constant or even declined.

However, personal incomes at the majority of the enterprises grew dramatically. Full-time employees had an increase of over 10 percent. It is also interesting that the increase in wages and the size of the firms had no discernible relationship.

In reality, the experimental wage policy's first year was not typical. Because, then we would have the magic formula.... Since among others, the more flexible

wage policy creates a much bigger interest in exploiting all reserves, and also converts these discoveries into personal income. But it is also probable that significant portions of the reserves have already been exploited in the first year....

This is evident since overtime hours have not increased. In fact, in industry total working hours have dropped 3.7 percent, and overtime dropped 7.3 percent. In construction, overtime increased by 3.5 percent, but achieved total hours declined by 2.5 percent. It is true, this can be explained by the significant spread of work associations within firms too.

This last point is what experts find hard to completely understand. In firms with a flexible wage policy, the increase in income due to sliding scale wages results in the differentiation of incomes. This usually leads to a deviation of 2.5 to 3, but sometimes incomes vary by a factor of five. But this is not smaller than the opportunities afforded by the enterprise work associations, and in addition, it can be achieved by using normal working hours only. This is where one can find the time-honored principle of proportionally rewarding higher performance achieved during normal working hours....

The time for this is here. In practice, it has been proven that the experiment of 1983 has favorable results. Early this year a new income regulation device went into effect, the results of which can be determined at mid-year. But it is certain now that the current wage regulation system has to be replaced by a newer, more flexible policy.

CSO: 2500/400

# HUNGARY'S EXPORT DRIVE DETAILED

East Berlin HORIZONT in German Jun. 84 p 24

[Article by Artur Fussek: "Hungary's Comprehensive Export Drive"]

[Text] To an increasing degree, Hungary is interested in expanding its foreign economic relations with both socialist and nonsocialist countries, especially since it realizes about 50 percent of its national income through foreign trade. It would like to consolidate this share, and possibly even increase it. That was also expressed at the most recent Budapest Fair, which Hungarian Minister of Foreign Trade Peter Veress opened up emphasizing that "the fair will contribute to realizing Hungary's most important goals in the economy and in commerce." The mentioned foreign trade orientation is a very demanding task when one considers that the requirements of the partners for deliveries and performance in all foreign markets have increased greatly and competitive offers have become more numerous. Added to that is the fact that the restrictive policies of certain imperialist circles relative to the socialist countries make normal trade difficult.

In view of this state of affairs--and certainly he was also thinking about the country's balance of trade and balance of payments--the minister assessed the 1983 foreign trade results with this sentence: "It was a difficult but, at the same time, encouraging year."

## Improved Balance of Trade

Six years ago, Hungary imported \$1 billion more in goods from the nonsocialist area than it exported there. In the years 1979 and 1980, the country was able to reduce the import surplus, and in the following year, it succeeded in equalizing its trade balance. After that, the government established the task of having foreign commerce achieve a credit balance in this economic sector. And thus in 1982, for the first time, an export surplus of \$517 million in convertible currency was achieved, followed in 1983 by another surplus of \$659 million. Was this result attributable to better performance by the national economy? Yes and no, for when one takes a closer look at the development of Hungarian trade, it is seen that the credit balance is the consequence of a substantial increase in exports (plus 11 percent) but also the result of a not unimportant reduction in imports from the nonsocialist economic sector (minus 9 percent).

The latter factor has at times created problems in numerous areas. If the conditions in foreign commerce should improve (possible as early as 1984), then the government will facilitate the importation of installations, machines and equipment to the extent possible, declared Minister Veress at the parliamentary session in the fall of last year. In this connection, he also said that it is not unusual for individual enterprises to use the lack of imported goods to excuse their own shortcomings.

Nevertheless, in this way (increased exports and reduced imports) it was possible to improve the balance of trade and to maintain the country's solvency. And that was exceedingly important for the national economy.

### Foreign Trade Results for 1983

The basic orientation of Hungarian foreign trade is one of close cooperation with the socialist countries. Hungary delivered 2.4 percent above the plan to this economic area and imported 5 percent more than was planned, resulting in a Hungarian debit balance of R420 million rubles. The principal stabilizing element in Hungary's foreign trade relations has been trade with the USSR. The USSR, with 34 percent of the total trade volume, is Hungary's largest partner. About 63 percent of exports to the USSR and 57 percent of imports from that country are based on treaties for specialization and cooperation. About 30 percent of all Hungarian exports of installations and machinery go to the USSR. Hungarian imports are mainly energy sources, including 6.5 million tons of petroleum, 3.5 billion cubic meters of natural gas, 500,000 tons of coke and 8 billion kWh of electric energy. In 1984, trade between the two countries is to increase by 400 million rubles to 8.6 billion.

The volume of total Hungarian trade with the GDR reached about 1.6 billion rubles in 1983, which corresponds to an increase of 8.5 percent over the previous year. A further increase is foreseen in the 1984 annual agreement.

In 1983, in contrast to the 2 preceding years, Hungary's trade with capitalist industrial countries increased and amounted to 36 percent of exports and 35 percent of imports (about two-thirds of the trade volume not cleared in rubles). There was a substantial worsening of trade conditions in commerce with this group of countries. The resulting loss for Hungary amounted to \$180 million. The decline in prices was felt most strongly in the export of food products (slaughter cattle and poultry, pork and beef as well as fresh vegetables and fruit).

In regard to trade with the developing countries, their financial problems are becoming increasingly apparent, and they complicate Hungarian exports, 42 percent of which are comprised to machinery and equipment and 33 percent of which are materials and semifinished products. Then come agricultural products with 15 percent and technical consumer goods with 10 percent. On the import side, products from agriculture and the foodstuffs industry dominate with 53 percent.

## Key Projects for 1984

For this year, absolute priority belongs to increasing exports with no change in imports. As stated by Matyas Timar, president of the Hungarian National Bank, at a press conference, foreign credits will help to increase substantially the production and exportation of export goods that bring in foreign exchange. This is the case both for industry (for carrying out the hydrocarbon program, for example) as well as for agriculture (e.g., for the program to increase production and improve storing of grain), which for the first time did not fully meet its export commitments because of drought damage.

For the end of the current year in trade with countries from the nonsocialist economic area, Hungary is counting on a credit balance in the range of \$700 million to \$800 million, which is to be used to service the debt. Since the country on the Danube has to pay back \$1.5 billion in medium-term credits and \$600 million in interest by the end of the year, the credit balance alone is not enough for this purpose. For this reason, on 13 January it signed an agreement with the IMF for the provision of a credit of \$450 million. Additional credit negotiations are in progress.

9746

CSO: 2300/519

## NEW CRACKING PLANT OPENS AHEAD OF SCHEDULE

Budapest NEPSZABADSAG in Hungarian 6 Jun 84 p 5

[Article by Judit Kozma: "Feat in the Cracking Plant"]

[Text] Production Trial Runs Have Begun in Szazhalombatta

The flare is lit. The red flame atop the tower, visible from far away, indicates to anyone approaching: the plant is working. The Sixth 5-Year Plan's largest Petroleum Industrial Enterprise in record time, three months before the original deadline. The trial run in the catalytic cracking plant which processes fuel oil began on 2 June.

### Three Months Gained

The decision to build the plant was made in late 1980. One of the very big problems of the domestic petroleum industry is that the distillation towers are producing relatively much fuel oil and little gasoline in comparison with the international leaders. And at the present time we can use fuel oil for only one purpose: burn it in power plants or industrial furnances. But the cracking plant creates the possibility of making gasoline, diesel fuel and other chemical industrial materials each year from a million tons of fuel oil, and thus the petroleum industry can get a total of ten percent more of the so-called white products--gasoline and diesel fuel--from the crude oil than before.

"According to the original ideas"--says Erno Ratosi, general manager of the enterprise--"the investment should have been completed on 30 June this year. After this the trial run could have begun, and December 1984 was the deadline for placing the facility into operation. But thanks to the well organized work of the construction crew, and to the wage experiment which encouraged outstanding performances, we completed installation by the end of March. Testing the individual pieces of equipment began after this, followed by preparing the entire plant for a test run. At the end of last week, Saturday evening we introduced the raw material, fuel oil into the appropriately prepared system, and cracking began--obtaining the various oil products. The plant has been continuously operating since then."

"What profit can the three month early start-up mean to the enterprise?"

"Several hundrds of millions of forints. Let's just calculate it: if the plant is operating at full capacity, it processes 3,000 tons of fuel oil each day. This will among other things yield 1,400 tons of gasoline, 600 tons of diesel fuel, 450 tons of liquid and and 210 tons of dry gas, as well as 240 tons of fuel oil. And these are much more valuable products than the fuel oil, and the enterprise derives significant profit from this. And it also means something that the gasoline we produce will significantly improve the supply."

The several tens of kilometers of piping system consisting of smaller and heftier pipes, winding left and right, the slim towers, and the storage tanks--which so unmistakably typify the oil industry facilities--reveal nothing outwardly about what actually is happening now. The system is fully closed; information can be obtained in the instrument room with the help of the instruments and the computer.

#### Everything In Order

Plant manager Arpad Deak, department manager Gabor Pazmanyi, operator Jozsef Gulyas and mechanical department manager Agoston Balassa attempt to "translate" and explain clearly also to the uninitiated, all the things this control room, unique among the country's facilities, tells us.

"Including the flare, the plant consists of nine deaprtment"--says Jozsef Gulyas, who is spending his fourth year in the cracking plant. He, like most of the operators, has been a part of this investment since the very first steps.--"We have installed about 1,600 tons of piping, 150 pieces of equipment (towers, tanks, etc.), 120 pumps, and 1,600 instrument loops."

"Are they all functioning properly?"

"We are living th first days of the trial run, thus naturally there are things that need adjusting"--Arpad Deak explains.--"For example, the gas fractionator is not operating at the moment, some adjustment needs to be made on the equipment which separates the various gases from each other, so that the product's quality will be right."

Valves, equipment and installations are also mentioned then, which they are keeping an eye on and will adjust or repair if necessary.

#### Will Be Ready in September

"Many things need work yet at times like this"--Gabor Pazamanyi says--"this is also why there are so many of us now. A total of 60 people are needed during operation, eleven will be working on each shift. But during the start-up more people are needed. Now each shift runs for twelve hours, and two groups are working simultaneously. The work is easier and faster this way."



"Of course this is not valid for us manager"--Jozsef Gulyas adds--"we stay here as long as necessary. For example, deputy plant manager Zoltan Leszak left to get some rest at midnight last night, and that is when the plant manager came on duty."

During the conversation they all keep looking at their watches with increasing frequency. The three-and-a-half year construction time of the 6.5 million forint investment is already a feat; the race with time is over. But even now the tempo can not slaken, the attention must not lessen.

So far-and let's not talk too soon--all equipment has operated without major problems. During the days of the trial run--to Tuesday noon--a total of 3,600 tons of gasoline has been sent to the storage tanks and will soon be sent to the consumers. If everything works out as planned, going on stream can take place in late September and the oil industry's new facility can "officially" begin to produce.

8584  
CSO: 2500/386

## BRIEFS

PLANS FOR NATIONAL BANK PRESENTED--In the framework of further development of the economic guidance system, the banking system also faces renovation. A decision of principle was made that such currency issuing activities of the HNB will be separated from business and credit functions. It is expected that next year smaller independent financial institutions will be formed to work alongside the National Bank. For example, small enterprises and small cooperatives can deposit their savings in these "minibanks." They will pay a predetermined rate of interest, and extend credit to the individual undertakings, as well as take part in them. They can give credit to state firms and to cooperatives. (So they, from now on, can get money from more than one "window.") In return, they don't just get their money back with interest, they may also request rents, or a part of the firm's profits. They thus expand their basic capital. But they can expand their sources of capital by issuing bonds, too. An example of such a "minibank" is the Innovation Fund, the Fund for Creative Youth and the Entrepreneurs Fund. [By Peter Toke] [Excerpts] [Budapest NETFOI HIREK in Hungarian 28 May 84 p 3]

NEX BAUXITE MINE--Parallel to the final installation of capital equipment, the partial mining of bauxite has begun in the Fenyőfo Bauxite Mine, which will be completed at the end of 1985. The extracted ore, about 100,000 tons this year, is shipped to the Almasfuzito Aluminum Factory. In the new mine, eight teams are at work. Up to now, they have dug a 3,600 meter long tunnel. They have to "drive out," as they say in technical terms, another tunnel for 5,000 meters. The new bauxite mine, an operation of the bauxite mine in Fejér County, will supplement the Rakhegy Mine #2, and will eventually replace it. There are several reasons why they can mine bauxite ore here under more favorable conditions than at its predecessor. What is especially advantageous is that the mineable ore is at such a shallow depth, that horizontal shafts [visszint süllyesztes] are not needed: the majority of the ore is accessible by strip-mining. However, it causes concern that the layers are segments, broken up and the surface layers sometimes consist of sand. Because of the sand special mine safety regulations were set up. [Text] [Budapest ESTI HIRLAP in Hungarian 15 Jun 84 p 3]

CSO: 2500/406

# STREAMLINING OF 'FAZ' TAX SYSTEM URGED

Warsaw RZECZPOSPOLITA in Polish 20 Jun 84 pp 3, 5

[Article by Bozena Papiernik: "Guillotine or Brake"]

[Text] The State Vocational Activization Fund (PFAZ) is attacked from various sides. It is being accused of everything. That it is draconian, that it is unfair, that the PFAZ guillotine cuts blindly; finally, that it is not stable enough, which, I think, is the only accusation from among those mentioned which is justified. The structure of the PFAZ changes each year and although the recent modifications appear to be slight, nevertheless they have an important effect on the financial results of enterprises.

But it is not these yearly changes in the rules of the game, albeit vexatious, that hurt the factories the most. And not even the fact that the present structure arose from experimental methods which were not free of errors. The greatest and most lively criticism heretofore has been provoked by the decisions which allow large wage increases to those factories or plants in which production in the past has suddenly fallen and consequently can suddenly rise again. This is nothing new, but its effects reflect on the situation in the enterprises, both on the measurable wage results as well as on the psychological results which appear in the form of lack of confidence in the way reform is being applied.

Although today no reasonable person asks, as happened 2 years ago and last year, what is PFAZ for, although there are few now who confuse it with the conventional tax on salaries, nevertheless there is some difficulty in understanding how this instrument operates. PFAZ performs a multifaceted role. As a brake on wages not supported by a growth in production and labor productivity, it is a safeguard against allocation of too large a portion of profit to current consumption at the expense of future development. Furthermore, it is an instrument of influence by the economic central authority in cases of enterprise self-dependence, on overall wage ratios (intersector, inter-branch, in the territorial setup). Next, it is an incentive measure for economies in employment. Finally, it is a fund from which funds should be drawn for current control of employment. Those were the assumptions when the PFAZ was structured as an instrument, which, as we see, is complex and multi-directional.

Among the misunderstandings relating to the PFAZ the one that has lasted the longest is the myth that it principally serves social and societal purposes, assuaging the "rapacious," as was originally expected, mechanisms of reform as a protection against the threat of unemployment. Since not even a shadow of such a threat has appeared and the reality seems to be shaping up exactly the reverse of what had been expected, it is understandable that there is very little dipping into PFAZ funds. There is no such necessity.

But quite interestingly in this year's plan much larger funds for various social and societal purposes will be provided, as seen from the provisions of the law on the PFAZ dated December 1983.

There is no doubt that the PFAZ, as a special tool in the current control of employment policy, is needed, and that at least for the moment this social role of the fund is limited, but who knows whether as time goes on it will not expand greatly. The fact that the Sejm assumed legal custody last year over the actual expenditure of these funds attests to the importance which it attaches to the proper use of the fund.

The basic, already mentioned, most important functions of the PFAZ are of a financial and economic nature and as such they were made part of the entire established, along with economic reform, system for furnishing money to enterprises. Is the PFAZ fulfilling its purposes in this most important economic aspect? Yes, but not in everything. Yes, because the PFAZ mechanism, aimed at a growth in production and labor productivity, is strong enough in its present form that it can oppose unwarranted wages and salaries; although it would be wrong to look upon it as a universal solution which in and of itself is able to ensure a connection between wages and high production and labor efficiency. For this some other things are necessary: a select system for taxing factories and plants, consistent implementation of the hard-money policy, and a suitable wage policy. And a wage policy, as we know, is an area that is just beginning to be shaped in the new circumstances, and is still far from in order. But before any such policy can be formed, there must be an improvement in efficiency and economy of management in the enterprises.

Returning to the PFAZ, it is not even surprising that under the present difficult economic conditions, with a high rate of inflation and constantly poor market, at the initial stage of the reformation of the economy, the control of the general proportions of wages--which is one of the assumed functions of the PFAZ--is a function that is more stipulated than real. To be sure, last year, thanks to the PFAZ preferences, it was possible to achieve a large improvement in the relations of wages in light industry in comparison with other branches of the processing industry; but this result, albeit extremely important, is a result which is very partial, despite everything. And here we come to a new area which is worth thinking about, and to the PFAZ allowances and preferences which, according to the assumptions, are supposed to be a means of controlling wages by the central economic authorities. The hitch is, however, that thus far this system of allowances and preferences is too complicated to be fully effective. On the other hand, this system must be complicated for the time being because the situation of the enterprises is equally complicated and varied.

The system of allowances and preferences needs no comment--it is sufficient to describe it. First of all, is this a system? Certainly. Everything is done so as to make the criteria of preferences and allowances as objective as possible and to eliminate favoritism. Last year areas of preference were specified in a directive from the chairman of the Planning Commission, but later it turned out that additional allowances had to be granted for a total sum of 13 billion zlotys. This year 15 billion zlotys was allocated in advance for allowances. It can be said that this year the planned system of preferences was more precisely defined, that the range of organizational allowances was reduced and product allowances expanded, assigned to the products and product groups which are most important from the standpoint of planned tasks. From the standpoint of economic policy and strategy, this is good.

But planned preferences are only one channel. The second is a 15-billion fund which is controlled by the Ministry of Labor and which is divided according to several specified criteria. The third direction relates to the present need for assistance for export. In addition, there is a large sphere of the economy where entirely separate PFAZ accounting rules apply. And, as director Wieslaw Jasinski, who is responsible for PFAZ in the Ministry of Labor, admits, cases occur where it is necessary to give additional consideration to the individual reasons of the enterprises, although they do not fit into any of the above extremely numerous and diverse criteria. Every criterion, taken alone, appears to be justified, but in total they form a system that is too complicated. And too expanded, in my opinion. Director Jasinski does not agree with this, arguing that several millions of allowances for a two-billion wage fund (that is what it amounts to on the national economic scale) is not much.

The fact is, that despite popular belief, it is very difficult to get an allowance. But the race for them goes on. Many plants compete, and the founding organs either second them or are not able to halt this race. Applications for 45 billion have already been submitted to the Ministry of Labor. Thus there is a long line of applicants, of whom a large part will have to leave with nothing.

Under these circumstances it is extremely difficult to implement a hard-money policy. And yet it must be done. So we can only hope that the plants are struggling for better and thriftier management with the same energy that they are trying to get allowances.

Nevertheless the entire system of preferences and allowances must be simplified very basically. And the need to stabilize the PFAZ regulations is urgent, it should be done immediately, and according to the declarations being made no basic changes in computing the PFAZ should take place in the next 2 years.

The question: Why a PFAZ? Asked seriously not too long ago, it now sounds rhetorical. That means that the solution, just as other mechanisms of reform, is being perfected and is operating more efficiently.

9295

CSO: 2600/1034

NEW LAW ON PLANNING COMMISSION DEBATED IN SEJM

Warsaw RZECZPOSPOLITA in Polish 20 Jun 84 p 5

[Text] The first reading of the draft law on the chief organ of state administration on planning matters--that was the officially formulated subject of a joint meeting of Sejm Commissions on Economic Planning, Budget and Finance, and Legislation. The substance of the draft law is that the Planning Commission, raised to the rank of the central state organ--as the commission's first vice chairman, Franciszek Kubiczek, stressed--be the governments' staff organ. On the one hand this would mean that its analytical and draft-planning functions would be greatly expanded, and at the same time it would relinquish its role as a decisionmaker, directly guiding the economic processes.

Some elements of a so-constituted Planning Commission are already apparent. For example, the creation of an early warning system and preparation of monthly and quarterly reports on plan implementation with particular consideration to possible threats.

The draft law also envisages important methodological changes in the planning process, which would be consistent with the already existing law on planning. The reference is to application in practice, in a legal manner, of a variant method of preparing plans, developing systems-type solutions which would ensure their implementation under conditions of reform. Another role proposed for the Planning Commission is that of developing methods for evaluating management efficiency and synchronizing economic plans with financial plans, the balance of payments, and the balance of the population's income and expenditures.

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MORE DETAILS ON MINISTRY TACTICS FOR EVADING REFORM LAWS

Warsaw ZYCIE GOSPODARCZE in Polish No 24, 10 Jun 84 p 5

[Article by Tomasz Jezioranski: "An Offer That Cannot Be Refused?"]

[Text] Reaction to the article titled "Through the Front Door" (see ZYCIE GOSPODARCZE No 16 [for translation of this and related articles see JPRS East European Report EEI-84-072]) exceeded all expectations. Out of the many letters, telephone calls and conversations, two main conclusions emerge. First, that the campaign against reform has gone beyond spectacular attacks on assumptions and is now like a tide of floodwater, washing it away with complete abandon. The second conclusion is more optimistic. It seems that in many people reform has taken great hold. The numbers of active advocates of economic rationality and lasting recovery from the crisis are even greater than some had hoped for. In some, this activeness takes the form of strong opposition to violations of the law (see, for example, Slawomir Lipinski's article, "Dispute About the Substitute," ZYCIE GOSPODARCZE No 22). In others, it appears in the disclosure of discreetly concealed destructive ideas.

That is precisely why I feel that the most valuable fallout from the article is the wealth of information that was obtained as a result of its publication. This material illustrates the entire range of inventiveness and methods leading to restoration of status quo ante in the economy, with no regard for the consequences, reducing everything to economics alone.

It appears that practically speaking, all of the ideas about which I wrote in ZYCIE GOSPODARCZE No 16 as being proposals are no longer proposals but are concepts which are being put into effect. Admittedly not all enterprises but still a goodly number of them which make up the large part of the industrial ministries now find themselves under strong centralizing pressure.

The managing directors are receiving the classic offers that cannot be refused to induce the workers' councils to renounce self-dependence and join various concerns, corporations, quasi-associations and "superfactory economic organizations"--to use the terminology of the Ministry of Mining and Power Industry which is energetically striving to put all of these concepts into effect.

Administrative pressure on the managements of the enterprises is supported, in accordance with the stick-and-carrot principle, by promises of easy life directed to the workforces, or strictly speaking, to their representatives--the workers' councils. These promises seem to indicate that there no longer is a crisis in Poland, there is no inflation, and there is no real compulsion to save and strive for efficiency.

Money for development? But of course, it will be there. That is what is told to the enterprises who want to invest, and all of them do. Money for a wage increase that is higher than the anti-inflationary rules in effect on wages allow? But of course, that has been guaranteed to you. That is what the work-force hears, and which one would not want to hear it? A problem with availability of supplies? No problem, we will take care of it. Administrative purges? Insolvency? Do not be afraid, relax, you are in no danger so long as you let us make the decisions.

In a word, very bright prospects are unfolded before the enterprises--a veritable second Canada. Everything that is good is immediately available, on only one condition: renouncement of self-dependence, self-government and self-financing, transfer of all managing authority from the hands of those who are trying to manage to the hands of those who want to administer.

I do not have to add at whose expense all of these promises are being made. Obviously, at public expense. No one else but the people--including those workforces who are falling for the cheap promises or yielding to administrative pressure (the allocation of state-controlled raw and other materials depends in large measure on the decisions of the branch ministries)--will pay for this successive phase of the "experiments." Dearly, more dearly than it has paid heretofore.

But I must confess that it is not the detailed descriptions of specific cases that is the saddest part of my talks with our readers. What is most depressing of all is that each time the same question is asked: "Where to seek a defense against the attacks on reform?"

This question was asked, for example, by the chairman of the workers' council in one of the refineries. In a letter to the editor he reported that the Minister of Chemical and Light Industry intends to award to both his refinery and six similar establishments the status of public-utility enterprises. In the letter, which we are not publishing at the author's request, he expressed indignation at the "constant attempts to reduce the self-governments to the role of bodies which decide the color of the tulips planted in front of the administration building."

#### A Run-Through on Reform

Perhaps I will offend my correspondents and others but I must say that the depreciation of the role of the self-government and its reduction to the position of the former Workers' Self-Government Council (KSR), which stems from the ministry's proposal, is, in my opinion, not the matter of the greatest importance. Ultimately, in the light of the law, it will depend on the self-governments themselves as to whether they allow themselves to be tempted or surrender



their rights as enterprise co-managers in return for a promise of wage increases, or whether those workforces are mature enough to be self-governing and place a larger value on their own organization.

Much more worthy of attention, it seems to me, is the significance of the offer made by the ministry as the administrative organ which implements, within the sphere assigned to it, the state's economic policy. In other words, most important of all is the ministry's relation, as embodied in the offer, to the economic essence of reform. Despite the proving tests which, indeed, turned out well, we must go over them again.

This economic essence is expressed in a legal requirement of concern for efficiency, a concern which is incumbent on all economic organizations. It is the duty of every organization, not just the rank-and-file enterprise but also the top level of the ministry, to do everything it can so that its operations will not be an economic burden to society, that it produce benefits and not losses. Primarily economic benefits, because without them--aside from a few exceptions--it is difficult to talk seriously about social benefits. Let us remember that after several years of downtrend, in 1979 Polish industry brought about a loss, the accumulated social effects of which appeared rather quickly.

The requirement of economic efficiency excludes only public-utility enterprises, and those are the exceptions that the legislature has sanctioned. In order to make everything perfectly clear I will cite, in its entirety, the pertinent section of the law on enterprises.

Article 8 paragraph 1 provides: "The primary purpose of public-utility enterprises is to satisfy the current and continuous needs of the people. In particular, the purpose of these enterprises is production or services in the areas of: 1) sanitary engineering, 2) municipal transport services, 3) supplying electric, gas and thermal energy for the population, 4) management of state premises, 5) management of state green areas, 6) management of health resorts, 7) funeral services and maintenance of cemetery equipment, 8) cultural services."

From the definition it is clear to see that the legislature intended this special status only for those organizational units whose continuous functioning absolutely serves the elementary needs of society. So elementary that the list included in the law does not even show enterprises producing food and medicines.

In traditional terminology it would be said very simply that the authors of the law were referring to municipal enterprises. And basically, the ranges of both these concepts overlap. The law provides that normally the status of a public-utility enterprise is granted by the territorial administrative organ with the agreement of the pertinent people's council; it, i.e. the council, must make a decision which is tantamount to giving up part of the income to its budget (a public-utility enterprise does not pay real estate taxes) and agreeing to a highly probable increase in expenditures. Only "in case of special need," says Council of Ministers' decree dated 30 November 1981, can this status be granted by the applicable ministry in consultation with the Minister of Finance.

Strictly speaking, in economic terms a public-utility enterprise differs from other enterprises in that it cannot fail, and that regardless of the bottom line it must continue to function.

#### Subsidies--for Whom?

For an organ of this state to come out with such a proposal--at a time when the state is appealing to all of the people to be efficient and to save, when due to the struggle with inflation taxes are being increased--would take enormous justification. The status of public-utility enterprise means that if such an enterprise operates at a loss, the founding organ must subsidize it. And the founding organ means the budget, either local or central, or however you look at it, the public purse.

To ask for such a status, therefore, is the same as making uncamouflaged efforts to obtain constant subsidies, for there is no way by which a public-utility enterprise can be forced to finance itself. And release from the obligation to be self-financing is permission to go on the public dole, which under our circumstances adds still more to the crisis. Subsidies to the hard-coal mines, which were granted the status of public-utility enterprises (although there is some doubt as to whether this was in accordance with the literally interpreted intentions of the legislature), totaled 78 billion zlotys in 1982, and rose to 97 billion zlotys in 1983.

Certainly to some degree subsidies are determined by understated prices. But there is no way to calculate to what degree the certainty of subsidy in any amount (as the actual result of need alone) affects their amount. And the status of public-utility enterprise means that both the enterprise and its founding organ have been relieved of the sense of economic pressure; that both the workforce and its superiors in the ministry have been relieved of the responsibility for the results achieved and the developmental policy conducted. It means there is no longer the duty of making economic choices, and the most expensive, but also the most simple method is followed--extensification. It simply means a return to a lack of consideration for costs and acquiescence to the position of making demands of the state.

The psychological importance of this pressure cannot be overestimated. It is quite interesting that it took scarcely 2 years for the socialized enterprises to fall into those that began to consider costs and rely on themselves, and those that went their former way, not exerting themselves at all. In this second group the subsidized enterprises dominate, especially the public utilities. This is seen on every plane, and especially as regards wages. The subsidized enterprises are constantly demanding a "fair" wage increase, i.e., one in line with others and not in line with results.

In the Ministry of Chemical and Light Industry I was told--quite frankly, as a matter of fact--that during the preliminary talks with the managing directors and the chairmen of the people's councils in some of the refineries, that was the first demand that was made. I do not know what the reply was, but since some of the councils are accepting the ministry's offer I assume that their demand was not rejected. Well, why waste the competence of the council members, since they know how to strike a good deal?

Thus we have arrived from the general to the specific. Therefore, let us ask ourselves: Are there perhaps some extraordinary reasons which would justify the desire to award the refineries (specifically) the status of public-utility enterprises and "remove" them from the rules on reform?

During talks at the Ministry of Chemical and Light Industry the argument came down to two premises dealing with the ministry's offer. The first is the desire to shield itself from the troubles which would arise from making dismissals within the ranks of the refinery personnel, and conceivably, in one or two cases, from the closing down of the refineries. The second is the "necessity of ensuring the correct structure for the refining of crude oil." Let us take a closer look at these arguments.

#### The Reliable Adviser

It is true that two refineries are in very difficult economic circumstances. Profitability (ratio of profit to total costs) in the Gorlice refinery at the end of the first quarter of this year, was 4 percent, while in the Trzebinia refinery it was scarcely 2.2 percent. We will try to write about the causes separately, but from our talks in the ministry it appears that one of them is the cost of transporting crude oil from the end of the pipeline in Plock and Western Pomerania to the distant regions of northern Poland. This is transport which, logically speaking, is totally unnecessary because the refineries in Plock and Gdansk are able to refine all of the crude oil now being imported into the country and still have a 30 percent refining capacity reserve for better years.

Perhaps, therefore, it might be more profitable to close these two refineries for at least 5 or 6 years, and to restrict the operations of the three remaining northern refineries to deep processing of refinery products coming from Plock and Gdansk?

The question is difficult but it is vital. It should be asked by the founding organ along with those involved. But such a question very clearly was not asked at the staff conferences, since the ministry knows nothing about it. No simulational calculations were made, and in general "we did not examine the problem in this aspect." As usual, therefore, a concept so loaded with economic consequences for all of the people was undertaken "by instinct," that reliable adviser of many of our managers.

The effects of the implementation of the ministry's idea come down to an easily computable total of direct costs in the form of subsidies, supplements, allowances and similar moves which cannot be applied with impunity, despite the most sincere desire, to enterprises which are operating on general principles. But this will not be the total accounting of the losses. Others will follow once the precedent has been set.

The Ministry of Chemical and Light Industry, after all, did not hit on an original idea but was merely following the example set in 1982 by the Ministry of Mining and Power Industry. Following the line of reasoning presented by both these ministries, not only can firms producing gasoline request the status

of public-utility enterprises, but also those firms which produce food, automobiles, underpants, furniture, curtains, shoes, pots, sinks... In short, before we know it most of our enterprises, and maybe even all of them, will get in line for subsidies. And it will be hard to say "no" to them because the law says they are entitled.

Such is the full and objective significance of the ministry's offer. And if it is being made in the name of implementing the state's anticrisis economic policy, then there is something here that I fail to understand. And by the way, it will be interesting to see what position the Minister of Finance, who is consistently conducting an anti-inflationary policy, takes in this matter. Will he turn out to be a financial watchdog of efficiency or a good uncle?

But I understand how this offer, which ignores the consequences, can be very appealing to the officials. The status that we are talking about transfers planning authority from the self-government to the ministry. Logically, since the state has--must have--the right to determine goals, it also has the right to allocate funds and control the activity of the organization it is maintaining. So now we have come to the ministry's second argument, i.e., the question of the structure of production in the refineries. And this is a matter, as they so delicately put it in the ministry, that is strategic. Let me begin, therefore, with an explanation of this "strategicness," the questioning of which may provoke a demagogic, in this case, charge that the state's most vital interests are being ignored.

It is the opinion of the state organs that the refineries in no way are entitled to be so directly linked with strategic interests. They have not been granted the status of special enterprises. Furthermore, in 1982, the proposal of the Minister of Chemical and Light Industry that the refineries be obliged to form an association was rejected as being without basis, which, in a way, is another sphere of "strategicness." The state's strategic interests are fully protected by the liquid-fuels distributor, i.e., the Petroleum Industry Center (CPN), and also by economic and organizational instruments.

Under this setup, in 1982 all of the refineries except the Gdansk refinery joined the voluntary "Petrochemia" association. But after less than 2 years, the Mazovian Refinery and Petrochemical Plants in Plock, the principal "refinery" supplier of money to maintain the association, resigned from membership. As a result, the costs of maintaining it, while no lower than previously, are now divided among fewer, and poor, at that, members.

In the context of financing voluntary association from profit for division, which should take place as of 1 January 1985, "Petrochemia's" future as a two-subsector association and not as a technological one, appears to be rather uncertain. Experience with one of the technological association in the Ministry of Chemical and Power Industry, "Textor," has taught us that such associations have no inclination at all to transform themselves into an intermediate level, and to exercise authority in someone else's name.

## There Are Enough Instruments

But returning to the point... A competent representative of the Ministry of Chemical and Power Industry explains the central control of the structure of production like this: We must protect the economy against shortages of petroleum-derivative products. At present, when the refineries themselves are doing the planning, we have a shortage of fuel oil and asphalt because production of these items is least profitable to the enterprises. And after all, we are speaking here of strategic products, of which there cannot be a shortage.

It should be said: Not "cannot," but unfortunately, "must not," because there is simply not enough crude oil refining now in relation to the potential and structure of the economy. Even a child can see this. Anyway, I heard a disarming answer to the question whether a change in the structure of production which would give us enough fuel oil and asphalt would not also cause an automatic shortage, even more critical, of other products (fuel oil is heavy fractions obtained in shallow refining, which means that enormous amounts of light fractions, which are much more necessary, go up in smoke). The answer was: Yes, then we would obviously have a shortage of other products.

Thus it is not the case that if the refineries are deprived of their economic independence and control of production is assumed by the ministry, the shortage of petroleum-derivative products will disappear. The shortage will be the same, or even greater and more troublesome. So what are we talking about? The question is vital, but in order to fully understand it we must recall, in a few words, the conflict which occurred last year between the Ministry of Chemical and Power Industry and the refineries (mainly the Gdansk one) on the structure of production (see ZYCIE GOSPODARCZE No 33, 1983).

In February of last year the ministry demanded that the refineries increase their production of fuel oil (always this oil, which burns much more easily than coal) at the expense of more refined products, that is, more expensive products. But it was silent on the subject of compensating the enterprises for their losses (for the Gdansk Refinery Works this was a drop in production value of approximately 750 million zlotys, i.e., about 13 percent, and a 40-million-zlotys drop in profit for division). The enterprise made a counter-proposal of technical and economic measures which would satisfy both sides, but the ministry did not take notice of this offer and simply demanded blind obedience.

The conflict did not actually occur probably because the matter died a natural death. What happened was that the Planning Commission simply changed the Central Annual Plan, reducing the entry which reflected the economy's fuel-oil requirements, requirements which were probably overstated under pressure from the cement works and the power plants. But whatever the reasons, it turned out that the enterprises had a better knowledge of what the economy really needed, that they had a better understanding of the necessities ensuing from the thrift program than did the pertinent ministry.

If I relate this story it is simply to keep things straight, because I cannot rid myself of the impression that there is an echo of last year's history in the ministry's present proposal. On the other hand, I do not wish to deny the right, nay, the duty, of the ministry, as a small part of the central authority, to influence the structure of crude oil refining. The ministry has a right to this, but it also has considerable power. Petroleum belongs to that group of raw materials whose utilization the central authority can, if it wants to and is able, decide almost without constraint. It controls procurement, sales (partially under strict state control), 95 percent of the petroleum products, and consequently, the relations between them.

If there are not enough of these instruments for the ministry's managers to evoke the desired reactions from the enterprises without disturbing their vital interests, and with the sweet taste of authority, then this certainly does not mean that the instruments are not useful.

9295

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## POLAND

### BRIEFS

POWERHOUSE STARTUP--As work proceeds at the "Belchatow" Power Plant in preparation for the startup of the No 4 360-megawatt power generating unit another important plant engineering operation has been completed, i.e., the high-pressure steam cleaning of all of the fixtures and equipment in this new unit. Preparations are now under way for the startup of the turbine. On another note, at the "Belchatow" Brown Coal Mine, which supplies the fuel to run this power plant, the mine's fifth dumping conveyor (the largest one in Poland) has gone into regular operation after completing its 5 kilometer journey from its assembly site to its operating site at the coal dump.

[Text] [Warsaw RZECZPOSPOLITA in Polish 9-10 Jun 84 p 1]

SZCZECIN PORT ACTIVITY--Work is continuing at a very fast pace along the docks of ports in the Szczecin area. During May the longshoremen of Szczecin and Swinoujscie transloaded as much as 2,095,000 tons of various goods. This was the best performance record ever racked up in the entire history of the ports along the mouth of the Oder River. Over the past several days working conditions at Szczecin's coastal ports have deteriorated considerably. Heavy rainfall has prevented the on- and off-loading of many moisture-sensitive goods. The average daily cargo handling volume is in the vicinity of 75,000 tons, a level of activity which serves as the harbinger of yet another good month. [Text] [Warsaw RZECZPOSPOLITA in Polish 9-10 Jun 84 p 1]

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## ACTIVITIES OF AERONAUTICS INDUSTRY REVIEWED

Bucharest REVISTA ECONOMICA in Romanian No 19, 11 May 84 pp 4-5

[Article by Teodor Chirica, technical director of the National Center of the Romanian Aeronautics Industry, "Aeronautics, A Key Branch of the Romanian Economy"]

[Text] The structural changes which have taken place in the economic and social development of Romania over the last 40 years have led to unprecedented reassertion and development of spheres of activity with traditions of long standing in Romanian industry. These spheres include the aeronautics industry, a key branch experiencing continued growth.

The traditions of Romanian aeronautics are linked to the names and creations of dedicated Romanian scientists, designers, and aviators: Train Vuia, Aurel Vlaicu, Henri Coanda, and others, who as a result of their creative talents and effort to surpass their own accomplishments opened new avenues for the progress both of Romanian aviation and aviation on a planetary scale. In addition, tens of thousands of other persons contributed their talents and efforts in the complex and difficult work of the aircraft designers to establish and develop the Romanian aeronautical industry. We can cite the accomplishments of Romanian aircraft designers dating from 1911, when the first type of aircraft were produced. The path followed by the Romanian aeronautical industry leads through the shops and plant departments of the IAR (Romanian Aeronautical Industry), the SET (Engineering Operations Company), and the ICAR (Enterprise for Romanian Aeronautical Construction), at which were signed the birth certificates of the first airplanes entirely designed by Romanian specialists, airplanes whose high performance (speed, engine design, flight autonomy) placed them among the first four leading aircraft types in the world.

During the post war period, following the large-scale rebuilding of the war-torn national economy under the wise guidance of the PCR [Romanian Communist Party], conditions were created enabling metallurgy, chemistry, mechanical engineering, electronics, and electrical engineering to provide the material resources necessary for development of critical areas of technology. At the Ninth Party Congress, Comrade Nicolae Ceausescu, with his guidance and instructions relaunched the aeronautical industry, becoming the founder of modern Romanian aviation.



In 1968 Romania had the following specialized industrial facilities in the aeronautical industry: the Aeronautical Materials Repair Enterprise in Bucharest, the Airplane Repair Enterprise in Bacau, and at Ghimbav (Brasov) a department of the Local Industry Enterprise concerned chiefly with repair of existing imported aeronautical equipment and to a very slight extent with building of gliders and airplanes. In terms of value the fixed assets of these facilities was only several hundred million lei, but the total number of workers was 2,484, including 13 persons in research.

In the 16 years of activity and special material effort since that time, a specialized institute (the National Institute of Scientific and Engineering Creativity - INCREST) in Bucharest and new enterprises in Brasov, Craiova and Bucharest have been built, outfitted with advanced equipment, and placed in service. The existing older facilities have been developed and radically transformed. The value of the fixed assets of the new branch of industry increased by a factor of more than 16 over this period (excluding the specialized research and technological engineering facilities). The commodity output and gross output value has increased more than 17 times and the total number of workers more than 10 times.

#### Promotion of Domestic Technical Creativity

The large-scale activity beginning in 1968 has also proceeded in the direction of building the facilities necessary for carrying out the priority programs established for manufacture of airplanes and helicopters, turbojet engines, turbine engines, mechanical assemblies, utility aircraft, training airplanes, gliders, and power gliders on the basis of original designs and licenses. In the interim, the scope of activity has been considerably increased to include the manufacture in Romania of metal and nonmetallic materials, precision cast and forged intermediate products of special nonferrous alloys and high alloy steels used specifically in aeronautical construction, and all assemblies and components of electric, radio, radio navigation equipment, airborne, hydraulic, fuel, pneumatic, air conditioning, etc., apparatus needed for aircraft and production engines.

Begun in 1969 as cooperation between specialized institutions in Romania and Yugoslavia, the program known by the acronym YUROM led to joint design and production of the IAR 93 airplane. This airplane, outfitted with the most modern equipment, is powered by VIPER turbojet engines manufactured jointly by Romania and Yugoslavia under Rolls-Royce license. The airplanes to be manufactured in the future will be characterized by improved mechanical and handling performance as a result of being outfitted with VIPER engines with afterburners. The performance of the IAR 93 airplane makes it a noteworthy achievement in its class at the world level.

Another significant achievement of the Romanian aeronautical industry is production of the IAR 316 light helicopter and the IAR 330 medium helicopter under license. These high-performance helicopters, nearly 300 of which have been manufactured, will continue to be produced both for domestic needs and for export. The equipment of both types of helicopters is of original design worked

out by Romanian specialists and has yielded remarkable results. Plans call for greater variety of modification in the future along with increase in production capacity. The TURMO IV C turbine engines and the mechanical assemblies (high precision and technically complex products) with which the IAR 330 medium helicopters are outfitted are also produced in Romania, at the Turbomecanica Enterprise in Bucharest, along with the VIPER turbojets. In the field of helicopter production a special effort is being made to increase integration of manufactured equipment, including integration for manufacture for the first time in Romania of rotors with blades of nonconventional structures reinforced with carbon fibers and for firm establishment of the basis necessary for transition to production of helicopters of Romanian design.

The beginning of industrial activities in aeronautics was marked by the manufacture in 1969, at the current Bucharest Airplane Enterprise and exclusively for export, of the BN-2 ISLANDER light passenger planes (10 seats), on the basis of documentation supplied by the British firm of Britten-Norman (currently Pilatus/Britten-Norman). Thus far 380 such airplanes have been built. The modern technology used in the manufacture of this private and business plane gave the enterprises in the current Baneasa industrial area a competitive advantage in starting up deliveries in 1974 of assemblies for the BAC 1-11 medium sized express passenger plane for the famous British firm of British Aerospace (approximately 10 percent of the structure of the aircraft, such as the stabilizer, nose gear, fin, direction indicator, leading edges of the wings, etc.).

In the sphere of agricultural aircraft, activities began with production of a small series of airplanes at Bucharest and Brasov on the basis of Romanian documentation and continues today with production of the IAR 827 airplane outfitted with a conventional radial 600-horsepower engine. This airplane has been improved in recent years by INCREST and the Bucharest Airplane Enterprise, and now has a payload of 800-1000 kilograms of chemicals. It is currently manufactured at the Ghimbav Aeronautical Construction Enterprise, where a version (the IAR 828) is being developed which has a payload of 1000-1200 kilograms of chemicals and is outfitted with a turbojet engine.

In the category of light airplanes (intended for pilot training) the IAR 823 aircraft equipped with a conventional engine has been produced both for domestic needs and for export. Production of airplanes in this category will be continued at Brasov with the IAR 825 and IAR 831 versions (the former outfitted with a turbojet engine and the latter with a conventional engine, at the option of the customer). At Brasov a varied range of metal gliders is being produced for domestic needs (aviation clubs) and for export to many countries throughout the world (a two seat performance model and several types designed for training). A power glider for training and performance, one outfitted with a conventional 65 horsepower engine and variable pitch propeller has also been developed at Brasov. Three such power gliders delivered to Australia in 1980 were transported by air (with stops for refueling). The distance between Brasov and Tocumwal, Australia (22,000 kilometers) was covered in 154 hours of flight, at an average speed of 143 kilometers per hour.

While up to 1975 the Bacau Airplane Enterprise was known only as an establishment repairing aviation equipment, as a result of elaboration of its industrial structure it has now become the leading builder of landing gear and the main producer of hydraulic systems in the Romanian aeronautical industry. On the basis of long-term cooperation with specialized Soviet units, since 1979 the Bacau enterprise has engaged in large series manufacture of light planes (IAK 52) for training and stunt flying. In autumn of 1983 the enterprise celebrated the 30th anniversary of its establishment by delivering its 500th IAK 52 airplane to the USSR. In addition, as a result of broadening cooperation with Soviet enterprises it has initiated activities for production of the M 14 P conventional engines (with which the IAK 52 planes are outfitted), as well as engines and reduction gears for the K-26 Soviet made agricultural helicopters. The RU 19 A 300 auxiliary (jet) engines, as well as other products (helicopters, engines, airplanes), will be manufactured for export to the USSR, with deliveries scheduled over a long period.

One of the most recent and most significant achievements of the Romanian aeronautical industry culminating its efforts was the completion and first flight of the Romanian passenger plane the ROMBAC 1-11 two years ago with Comrade Nicolae Ceausescu present. This accomplishment, a true occasion for celebration by Romanian aircraft designers, demonstrated that Romania has made a spectacular entry into the ranks of countries with an advanced aeronautical industry.

#### Romanian Industry as a Motive Force in Manufacture of High Prestige Products

During the first years, efforts were channeled toward manufacture of the products included in programs, on the basis of materials and equipment imported from specialized firms. There was later a gradual increase in the degree of integration of aircraft and aircraft engines. Carrying out these integration measures has required and continues to require great effort as regards establishment of specialized research, design, and production units, increase in the contribution made by the Ministry of the Machine Building Industry and other ministries to manufacture of products needed by the aeronautical industry, and maximum use of existing facilities in units under the National Council of the Romanian Aeronautical Industry.

The establishment of new units in the industrial areas of Baneasa, Magurele, Pipera and Militari in Bucharest now permits the production in Romania of equipment of great importance for a number of types of serially manufactured airplanes. At the same time, the intensification of efforts at existing facilities in Bucharest, Brasov, Craiova and Bacau - establishment of special teams concentrating on structural and technological design, supervision of manufacture, and official approval of assemblies, equipment, materials, spare parts, and technologies specific to aviation which are produced in small batches and the manufacture of which it is not economical to assign to specialized facilities established expressly for the purpose - has made it possible to meet the requirements set for faster production growth. At the same time, for the purpose of testing and official approval of such products absolutely necessary for the manufacture of aircraft and aircraft engines, the enterprises under the National Council of the Romanian Aeronautical Industry have designed and built with utility vehicles

specific test stands and benches in the design of which a contribution has been made by specialists of INCREST and, more recently, of the Directorate of Industrial Control and Quality Assurance of Aeronautical Products in Bucharest.

The diversification of aeronautical production and the faster pace of introduction of items into production have led to the need for increasing the number of new or redesigned modern technologies. As the result of application of the measures contained in specially prepared plans, in a relatively short time aircraft building units have become the beneficiaries of leading technologies such as controlled bending of large milled skin panels, bending of thick skins having spatial curvature, repetitive machining of complex items on numerically controlled machine tools, production of nonconventional aeronautical structures, including those with a metal or plastic honeycomb interior sheathed in panels reinforced with fiberglass or carbon fiber, machining of engine parts by means of spark erosion by chemical cutting followed by application of electrothermal protective coating or chrome and aluminum plating, etc.

A significant contribution to achievement of these results has been made by the specialists of INCREST, the enterprises under the National Council of the Romanian Aeronautical Industry and many other specialists at research and development units of the Ministry of the Machinebuilding Industry, the Ministry of the Machine Tool Building and Electrical Engineering Industry, the Ministry of the Chemical Industry, the Ministry of the Metallurgical Industry, the Ministry of Light Industry, etc. As a result of utilization of the experience acquired in original design or assimilation of a large number of assemblies, items of equipment, materials, and very high parameter technologies required by the standards of the aeronautical industry itself, the microproduction sector of INCREST and the production department specializing in assimilation, which are present in every unit under the National Council of the Romanian Aeronautical Industry, are now in a position to diversify products to be able to meet any demands deriving from the requirements of other sectors of the national economy or even for export.

The development of the aircraft industry, along with the other critical branches of the economy, represents an expression of the advanced stage now reached by Romanian industry, which is capable of turning out a wide variety of complex products both for domestic needs and for export. This is the fruit of the wise policy of our party and state, which have laid a firm foundation for socialist economy over a short period by mobilizing the efforts of the entire people and its intelligence and innovative spirit.

6115

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MEASURES TO IMPROVE PRODUCTION FOR EXPORT

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[Article by M. Fediuc and G. Moldoveanu: "Production for Export - A Priority in Scheduling Production"]

[Text] Exports - the secretary general of the party pointed out at the Central Committee plenary session in March of this year - account for a large percentage of our economic activity. On the basis of exports we create the conditions needed to ensure the import of raw materials, materials and other items which we need for production. Within the context of this emphasis, each economic unit involved in export activities is obligated to take all measures to produce fully and on-time those items slated for foreign partners and to turn out high-quality products having high technical and operational parameters and reduced levels of materials and energy consumption, products that are competitive on the international level, contributing in this way to the creation of the hard currency reserves necessary to the national economy.

At the recent Plenary Session of the National Workers Council, in analyzing plan achievement over the first 4 months and the perspectives for the entire year, comrade Nicolae Ceausescu noted that under the conditions of increasing the volume of exports compared to the corresponding period last year, there have been, nonetheless, shortfalls with regards to the plan which must be eliminated by the end of this quarter by taking adequate measures. "By law we have established that export production will receive priority and that technical-material supply will be provided first of all for export activities. It is necessary for our central organs, the ministries, all the units and the management councils to steadfastly carry out the provisions of the state plan and the laws of the country!"

The efficient carrying out of production for export requires optimizing the effects of those technical, economic and organizational factors which lead to obtaining this production under conditions of superior quality and contractual timeliness.

Among the factors of an organizational nature, a central place is occupied by the scheduling of physical production tasks for exports and the starting of production on those products that have been contracted, as well as following up on the precise and timely carrying out of the production plan. Investigations carried out at a series of industrial enterprises regarding the causes behind

the failure to achieve export tasks during the preceding period showed - in addition to other causes - some of the shortcomings that crop up in the area of substantiating production schedules, detailing these schedules over time and space right up to the level of the directly involved producers, starting production at opportune times, effectively following up the flow of production and completing production for export. In this context, we clearly see the need to improve the system of detailing, starting and following up on the export production plan, depending upon the type of production at the enterprise, the nature of the technological processes and the complexity of the final product.

#### Flexibility in Scheduling and Steadfastness in Supplying Necessary Resources

Given the particular nature of export production - which above all has a dynamic nature in relationship to the requirements of the foreign market and with the need to qualitatively update products - it is necessary to use a flexible scheduling system which will allow "mid-course" modifications to production schedules without disrupting the smooth flow of overall technical-production activities.

According to the regulations in effect, export production is scheduled, started, carried out and followed up as a distinct internal order having maximum priority. This priority, arrived at on the basis of multidimensional decisions, is institutionalized by moving it - as expressed in a numerical form - into the monthly calendar schedule and by detailing the physical production in the operational production schedules, which are obligatory for all the structural links in production.

At the level of organizing production, this priority internal order must be met with all the necessary production resources, in an efficient manner and at the level of the export plan requirements:

- the permanent use of certain production facilities for export tasks and domestic urgent requirements. By this we understand not temporarily withdrawing certain facilities from operation in expectation of certain special orders, but the establishment of such a echelonment of current tasks that there is an intensive use of machinery, equipment and installations with appropriate maintenance and timely, good-quality overhauls and repairs which will allow the units to get ahead in carrying out these tasks. Thus, at any time we will be able to find some available potential in order to accept tasks stemming from the conclusion of new contracts with foreign users;
- the regular supply of raw materials and parts (subassemblies) from cooperative efforts. The analysis of causes which last year brought about shortfalls in the export production plan at some Bucharest industrial units - for example, the Heavy Machinery Enterprise, the Radio and Semiconductor Parts Enterprise, "Autobuzul," "Policolor," the Clothing and Knitwear Enterprise - showed that the greatest factor was precisely the defects in the timely resolution of the

resource supply problem. Since at the time of establishing the supply plan the export plan is not always fully covered by contracts and since the circumstantial evolution of the market requires a flexible adaptation to the opportunities that crop up, supply priorities - which have been stressed by the secretary general of the party, comrade Nicolae Ceausescu - must be resolved both at the level of the producer enterprise and at the level of the supplier and the organs having attributes in this area;

- the use of certain workers having higher qualifications in the manufacture of products. Under conditions of implementing the overall work agreement, these workers can benefit from a stimulative bonus in their salary.

In the same direction of bringing efficiency to the schedules specific to export production, conditions must be created which will guarantee the continuity, regularity and uniformity of production so as to eliminate rush work during the last portion of the month, the quarter, the year or the period just prior to the delivery date in the case of export products having a small production series run and a long production cycle.

#### Starting Production - The Moment for the Effective Correlation of Indicators at the Level of the Sections and Work Formations

On the basis of the production schedules that have been quantitatively and calendaristically correlated, through the intermediary of the start-up of production the actual making of the products commences. Under current conditions, when it is necessary to have a maximally efficient administration of the raw materials base, energy and fuels, the instruments for the start-up of production must be used to a higher degree in order to rigorously size consumption levels and to stay within standardized production costs. Export production is part of overall goods production and within the structure of the effective costs of this production the material costs account for 67.3 percent of all national-level industry. It is, therefore, necessary for each unit which makes products for export to work in the direction of achieving superior quality, under conditions of the economical use of raw materials, materials, fuels and energy, so that this production will be efficient in relation to its hard currency contribution and income.

Similarly, the start-up of production provides the beginning of the use of manpower in the technological process, which, in the form of salaries, accounts for 14.4 percent of the production costs for national-level industry. Stimulating the enterprises and workers to achieve and overfulfill export production under conditions of spreading the implementation of the overall work agreement requires each work formation, group, shop, section or other to be distinctly established at the start-up of production, along with the physical production tasks that are slated for export and the unit consumption of necessary manpower, all correlated with the planned level for increasing worker productivity on the job, by product and for the overall enterprise.

Raising the technical and quality level of the products, both in design and in production, represents an orientation which combines these internal economic imperatives of the enterprise and the national economy with the requirements for competitiveness on the foreign market. The contracting for and production of certain products which involve large amounts of manpower and materials - without asking for and ensuring the superior use of them by way of a high degree of processing and a higher content of technical intelligence - does not satisfy the conditions of economic and social profitability.

#### Daily Follow-up of the Status of Carrying Out Orders Slated for Foreign Partners

The follow-up and review of the quantitative and qualitative fulfillment of export production constitutes another component of the activities of scheduling and pursuing production that is designed to contribute to completing the production cycle and to evaluating the results that are obtained.

The practices stemming from certain units urge us to state that in all the industrial units having export tasks there should be an institutionalization of a system for the effective control of production that will use graphic schedules for preparing, scheduling, starting, carrying out, following up and delivering the product - and where the possibilities exist, using modern technical means for following up and reviewing the carrying out of the production process - so as to know at any moment the status of carrying out the scheduled tasks for export.

Using the information that has thus been gathered, in short, preferably daily work sessions the responsible people at the level of the enterprises and the operational and production departments who are involved will be able to establish measures to correct any deviations from the schedules in order to eliminate bottlenecks in the technological processes for one or another of the orders and to use opportunities to get ahead of delivery schedules.

Through these few points, we wanted to show the specific role of the workers in the departments for preparing, scheduling, starting and following up production in the collective efforts of the workers in those enterprises having export tasks to completely fulfill these priority obligations within the time-frames and under the quality conditions set forth in contracts.

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